AICPA peer review program manual : for peer reviews commenced prior to January 1, 2005; Peer review program manual : for peer reviews commenced prior to January 1, 2005

American Institute of Certified Public Accountants. Peer Review Board

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AICPA Peer Review Program Manual

(Engagement Checklists Not Included)

For Peer Reviews Commenced Prior to January 1, 2005
AICPA Peer Review Program Manual

(Engagement Checklists Not Included)

For Peer Reviews Commenced Prior to January 1, 2005
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About This Publication

Scope of the Publication

The AICPA Peer Review Program Manual (Manual), with the issuance of Report No. 21, has been updated with the revised Standards for Performing and Reporting on Peer Reviews, checklists and materials developed by the AICPA Peer Review Board for use when administering, arranging and carrying out peer reviews commencing on or after January 1, 2005.

The instructions with Report No. 21 inform the subscriber to remove several sections from the Manual, specifically sections 1000 through 11,000. In order to assist peer reviewers and administering entities complete peer reviews that commenced prior to January 1, 2005, those removed sections have been reproduced in this publication.

Peer Reviewers can still use the engagement checklists in the Manual (sections 20,000 through 24,200) to complete peer reviews commencing prior to January 1, 2005.

How This Publication Is Arranged

The contents of this publication are arranged as follows:

Introduction
Information About the Administration of the AICPA Peer Review Program
Standards for Performing and Reporting on Peer Reviews—For Peer Reviews Commencing Prior to January 1, 2005
Guidance for Writing Peer Review Reports and Letters of Comments
System Reviews
Engagement Reviews
Report Reviews
Guidelines for Involvement by Associations of CPA Firms in the AICPA Peer Review Program
Monitoring Guidance

How to Use This Publication

The arrangement of material is indicated in the general table of contents at the front of the publication. Each major division contains a detailed table of contents covering the materials within it.

The major divisions are subdivided into sections, each with its own section number. Where possible, each paragraph within a subdivision is decimally numbered. For example, PRP section 2100.01 refers to the first paragraph of section 2100, “Information About the Administration of the AICPA Peer Review Program.” Section and paragraph numbers located on each page are provided as corner references at the bottom of each page.

[The next page is 1001.]
PRP Section 1000

Introduction

.01 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 themselves1 enrolled in such a program if the services2 performed by such a firm or, respectively, individual are within the scope of the AICPA's practice-monitoring standards and the firm or, respectively, individual issues reports purporting to be in accordance with AICPA professional standards. (Depending on how a CPA firm is legally organized, its partner(s) could have other names, such as shareholder, member, or proprietor.) A firm (or individual) enrolled in the AICPA peer review program or a member firm of the SEC Practice Section (SECPS) is deemed to be enrolled in an approved practice-monitoring program. (See sections 2.2.3 and 2.3.4 and 7.6 of the bylaws of the AICPA, The Code of Professional Conduct Rule 505, and the implementing council resolutions under those sections.)

.02 In the fall of 1994, the AICPA Board of Directors and the AICPA Council approved the combination of the peer review program of the private companies practice and the AICPA quality review program. At that time, the AICPA quality review program was renamed the AICPA peer review program and the executive committee having senior status with authority to establish and conduct the review program in cooperation with state CPA societies was renamed the AICPA Peer Review Board.

.03 This manual has been prepared by the AICPA Peer Review Board. The standards, policies, programs and checklists set forth in this manual have been developed to assist—

a. Reviewers carrying out peer reviews of firms enrolled in the AICPA peer review program.

b. State societies that participate in the administration of the reviews of such firms.

c. Associations of CPA firms that assist their members in arranging and carrying out peer reviews.

d. The AICPA Peer Review Division itself.

.04 Reviews of firms that are members of the SEC practice section of the AICPA division for CPA firms are carried out under the standards issued by the SEC practice section’s peer review committee that address, among other things, the various membership requirements of the section applicable to audits of SEC clients.

.05 In performing peer reviews, review teams must complete all relevant programs and checklists issued by the AICPA Peer Review Board in a professional manner. Failure to do so may create a presumption that the review has not been performed in conformity with the standards governing the program.

.06 The manual is in loose-leaf format in anticipation of updating and expansion. Changes are expected to arise from three sources:

a. Comments and suggestions from individuals or groups in the program.

b. Needs identified by the AICPA Peer Review Board.

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

2 See the definition of services covered in PRP section 3100.04.
c. Issuance of new official pronouncements by the Financial Accounting Standards Board, the AICPA Auditing Standards Board, and other senior AICPA committees.

.07 Comments and suggestions should be addressed to:

Practice Monitoring Team
AICPA
Harborside Financial Center
201 Plaza Three
Jersey City, NJ 07311-3881

[The next page is 2001.]
**PRP Section 2000**

**Guidance About the Administration of the AICPA Peer Review Program**

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### PRP Section 2100

**Information About the Administration of the AICPA Peer Review Program**

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General

.01 This section has been developed by the Peer Review Board to provide information on the administration of peer reviews under the AICPA peer review program.

.02 In order to retain their membership in the Institute, members of the AICPA engaged in the practice of public accounting in the United States or its territories are required to practice as owners or employees of firms enrolled in an approved practice-monitoring program if the services performed by such a firm are within the scope of the AICPA’s practice-monitoring standards and the firm issues reports purporting to be in accordance with AICPA professional standards.

.03 The practice of public accounting is defined in ET section 92.25 of the Code of Professional Conduct as consisting of “the performance for a client, by a member or a member’s firm, while holding out as CPA(s), of the professional services of accounting, tax, personal financial planning, litigation support services, and those professional services for which standards are promulgated by bodies designated by Council, such as Statements of Financial Accounting Standards, Statements on Auditing Standards, Statements on Standards for Accounting and Review Services, Statement on Standards for Consulting Services, Statement of Governmental Accounting Standards, Statements on Standards for Attestation Engagements, and Statement on Standards for Accountants’ Services on Prospective Financial Information.”

.04 A firm enrolled in the AICPA peer review program or a member of the SEC Practice Section (SECPS) of the AICPA Division for CPA Firms is deemed to be enrolled in an approved practice-monitoring program. (See section 2.2.3 and 2.3.4 of the Bylaws of the AICPA and the implementing Council resolution under those sections.) An AICPA member may engage in the practice of public accounting with a firm auditing one or more SEC clients only if that firm is a member of the SEC Practice Section. (See section 2.3.5 of the Bylaws of the AICPA and the implementing Council resolution under that section.)

.05 This section is applicable to firms enrolled in the AICPA peer review program and to individuals and firms who perform and report on such reviews, to state CPA societies administering the reviews, and to associations of CPA firms assisting their members in arranging and carrying out peer reviews.

.06 So the AICPA Peer Review Board can concentrate its efforts on setting standards, developing peer review program materials, and overseeing the administration of the peer review program, all state CPA societies have been asked to administer the combined program in their states or to arrange to have the reviews administered by another state CPA society. Exhibit 1 includes a listing of the state CPA societies that have elected to administer the AICPA peer review program.

Requirements for Joining the AICPA Peer Review Program

.07 If a firm has an accounting or auditing practice, it should enroll in—

a. The AICPA peer review program; or

b. The SEC Practice Section of the AICPA Division for CPA firms.

.08 A firm that does not perform accounting and auditing services as defined for peer review purposes may enroll but will not be required to have a peer review if the firm annually confirms that it does not perform any such services.

.09 A firm may join the AICPA peer review program by completing and submitting an “AICPA Peer Review Program Enrollment Form” to AICPA Practice Monitoring at Harborside Financial Center, 201 Plaza

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1 See the definition of services covered in PRP section 3100.04.

PRP §2100.01  Copyright © 2003, American Institute of Certified Public Accountants, Inc.
Three, Jersey City, NJ 07311-3881. Peer review program enrollment forms can be obtained from the AICPA (201/938-3030) or participating state CPA societies. In order to enroll in the AICPA peer review program, at least one owner of the firm must be a member of the AICPA. In addition, effective January 1, 1997, the ownership of the firm must be in compliance with Council resolutions (AICPA, Professional Standards, vol. 2, ET Appendix B).

.10 Every CPA firm, regardless of size and the practice-monitoring program in which it participates, must have a system of quality control for its accounting and auditing practice and must conform with the AICPA's quality control standards. However, preparation of a quality control document is not required to have a peer review. Completion of a brief quality control questionnaire is all that is required.

.11 A firm participating in the AICPA peer review program must have a peer review in accordance with the AICPA Standards for Performing and Reporting on Peer Reviews (see PRP section 3100) once every three years if it performs accounting and auditing services as defined for peer review purposes, and must comply with the administrative policies established for the AICPA peer review program.

Timing of Reviews

.12 A firm enrolling in the AICPA peer review program is assigned a due date by which it must have its initial peer review. The due date is the date by which all applicable peer review documents, including the report, and if applicable, the letter of comments and letter of response must be submitted to the administering entity. A firm's initial due date for review is normally 18 months from the date of enrolling in the program, except as indicated below:

a. If a firm was a member of the SEC Practice Section prior to enrolling in the AICPA peer review program and did not have a review under that program, the firm's initial due date will be the date assigned under the SEC Practice Section or ninety days after enrolling in the AICPA peer review program, whichever is later.

b. If the firm has undergone a peer review under the auspices of the SEC Practice Section, it may defer the due date for its next review until three years and six months after the end of the period covered by the previous peer review.

.13 If a firm resigns from the AICPA peer review program and subsequently rejoins the program, the firm's due date for review will be the due date originally assigned the firm or ninety days after rejoining the program, if later.

.14 A firm should maintain its review year from review to review. A firm's subsequent review should ordinarily have a due date of three years and six months after the end of the period covered by the previous review.

.15 Firms without an accounting or auditing practice as defined for peer review purposes will not be reviewed. However, if the firm obtains an accounting or auditing engagement, it will be expected to have its initial review by the due date assigned which is 18 months from the fiscal year-end of the first accounting or auditing engagement accepted.

.16 A firm may find that it cannot have its peer review by the due date assigned. In these circumstances, the firm should submit a letter to the state CPA society administering the firm's review prior to the due date of the review. Ordinarily, that letter should be submitted at least sixty days prior to the due date and should cite the reasons why the firm cannot have the review and should offer an alternative date for the review.

.17 If a firm has any questions regarding the date by which it is due for review, it should contact AICPA Practice Monitoring at 201/938-3030.

AICPA Peer Review Program Manual
Sources of Reviewers

.18 A peer review may be performed by—

a. A team appointed by a state CPA society participating in the peer review program (a committee-appointed review team or "CART").

b. A team formed by a firm engaged by the firm under review (a firm-on-firm review).

c. A team formed by an association of CPA firms that is authorized to form such teams (an association review).

Service as Reviewer

.19 All system review team captains and engagement and report reviewers are required to have completed an AICPA Peer Review Board approved training course during the five-year period prior to the commencement of the review. The following initial training and continuing education courses are required:

a. A team captain must initially attend an AICPA reviewers' course on how to conduct a review under the AICPA practice-monitoring programs or a state CPA society course on how to conduct a review that has been approved by the AICPA Peer Review Board.

b. A reviewer conducting an engagement or a report review should have completed a training course or courses that meet the requirements established by the AICPA Peer Review Board.

c. Thereafter, during the five-year period prior to the commencement of a review, all of the courses mentioned in PRP section 3200.10 fulfill the continuing education requirements for service as a system, engagement, or a report reviewer (and if the "How to" training course is taken, only the first day needs to be attended for engagement and report reviewers). Individuals taking the advanced training course should have attended an introductory course and performed at least one review as an on-site or system review team captain.

See Peer Review Standards Interpretation No. 3, "Team Captain and Reviewer Training Courses" (PRP section 3200.08-.11) and Peer Review Standards Interpretation No. 4 (PRP section 3200.12) for a list of required initial training and continuing education courses.

.20 Any individual meeting the qualifications for service as a reviewer set forth in the AICPA Standards for Performing and Reporting on Peer Reviews who wishes to serve on a review team should complete a reviewer resume form and submit it to the AICPA. (See Exhibit 2.) The information submitted on that form will be contained in the master reviewer data bank maintained by the AICPA and will be available to participating state CPA societies. Individuals who are included in the bank of reviewers must update their resumes bi-annually to remain in the data bank.

Reviewing Firms

.21 Firms participating in the AICPA practice-monitoring program may indicate their willingness to perform peer reviews of other firms by completing a reviewing firm interest form. That form includes, among other things, the locations of the offices of the firm that would be interested in conducting peer reviews (see Exhibit 3).

.22 The information submitted will be included in a master reviewing firm data bank maintained by the AICPA and will be available to participating state CPA societies. Upon request, firms may obtain a listing of the firms located in a particular geographic area that are included in the data bank. The inclusion of a name
on a listing does not constitute an endorsement of the listed firm or a team selected therefrom. After a team is formed by a firm engaged to perform a review, the arrangements will be reviewed by the state CPA society administering the review.

Associations of CPA Firms

.23 A list of associations of CPA firms that have been authorized to arrange peer reviews for their members will be maintained. This list will be periodically updated. PRP section 9000 of this manual discusses the guidelines for association involvement in the AICPA peer review program.

Review Team Working Papers

.24 Working papers must be prepared by the review team to document the work performed and the findings and conclusions reached on system, engagement, and report reviews. Working papers, including engagement review checklists, should not name or otherwise identify the reviewed firm's clients.

.25 In performing peer reviews, review teams must complete all relevant programs and checklists issued by the AICPA Peer Review Board in a timely, professional manner. Failure to do so may create a presumption that the review has not been performed in conformity with the standards governing the program. See Peer Review Standards (PRP section 3100.99-.105) for a discussion of a reviewer's responsibilities when performing peer reviews.

Submission of Working Papers

.26 Within thirty days of the exit conference date or by the firm's peer review due date, whichever date is earlier, on a system review (earlier of completion date or due date on an engagement review and on a report review), the team captain (reviewer on an engagement or report review) should submit to the state CPA society administering the review copies of the report and letter of comments, if any, and the working papers specified in the checklists issued by the AICPA Peer Review Board.

.27 Other working papers for firm-on-firm reviews should be retained by the reviewing firm. Other working papers for association reviews should be retained by the respective association. Therefore, a system review team captain (engagement or report reviewer) should notify the state CPA society administering the review of when the peer review working papers will be available for review and where they are being held by submitting a properly completed review completion form (Appendix A to the Team Captain Checklist—System Reviews, Appendix B to the Instructions to Reviewers Performing Engagement Reviews, and Appendix B to the Instructions to Reviewers Performing Report Reviews).

.28 When the timing guidelines discussed above are not met, the state CPA society's staff or a member of the applicable peer review committee should determine the reasons for the delay and act accordingly. If, in their opinion, after consultation with the chair of the applicable peer review committee—

a. The delay arises from an unresolved problem or disagreement in the review, an attempt should be made to resolve the matter.

b. The delay arises from a failure to perform the peer review in a timely, professional manner, the applicable peer review committee should decide whether to ask the AICPA Peer Review Board to suspend the individual's right to perform peer reviews at least until the review is completed in a professional manner.

c. The delay arises from a failure by the reviewed firm to cooperate with the reviewer, the state CPA society's peer review committee should decide at its next meeting whether to refer the matter to the
AICPA Peer Review Board; in these instances, the AICPA Peer Review Board will decide whether to appoint a hearing panel to consider whether the firm’s enrollment in the AICPA peer review program should be terminated or whether some other action should be taken.

Working Paper Retention Policies

.29 All working papers, reports, letters and other materials prepared during system, engagement, and report reviews, with the exception of those described in paragraphs .31 and .32 below, should be retained by the entity or the firm that formed the review team until ninety days after the date of the letter notifying the reviewed firm that the review has been completed, as defined in Peer Review Standards Interpretation No. 8, “Defining the Acceptance and Completion Dates on a Peer Review” (PRP section 3200.72-.73). However, working papers and other related materials should be retained for a longer period of time if requested by the peer review committee, such as in those cases where the peer review has been selected for oversight.

.30 If a firm has not been enrolled in a practice-monitoring program for the last three years and six months, the entire firm file may be destroyed. If a firm has been enrolled in a practice-monitoring program at any time in the last three years and six months, but has not had a peer review because the firm did not have an auditing or accounting practice in that time frame, the peer review documents in paragraph .31 below may be destroyed.

.31 The following peer review documents should be retained from system, engagement, and report reviews until the subsequent review required of the firm or until the time for such review has elapsed:

a. The peer review report
b. The letter of comments and the firm’s response thereto, if applicable
c. The letter accepting the peer review report and, if applicable, the letter of comment and the firm’s response
d. The letter documenting compliance with any remedial or corrective actions to which a reviewed firm agrees

.32 Also, the state CPA society administering the review may wish to consider retaining the following additional materials related to the arrangement of the review rather than the peer review itself:

a. Engagement letters
b. Scheduling information forms
c. Team appointment acceptance letters
d. Extension requests

.33 All working papers will be subject to oversight or review by the state CPA society administering the review, the AICPA Peer Review Board, or other bodies that the Board may designate, including their staff.

.34 All working papers, notes, or other documentation prepared by a participating state CPA society in connection with the scheduling, performance, or acceptance of reviews are also subject to oversight.

Submission of Peer Review Documents

.35 A firm participating in the AICPA peer review program is required under the AICPA Standards for Performing and Reporting on Peer Reviews to arrange and schedule its review in compliance with the administrative procedures established by the state CPA society administering the reviews and to cooperate with the society and with the AICPA Peer Review Board in all matters related to the review.
Within thirty days of receiving the report and letter of comments, if any, or by the firm’s peer review due date, whichever date is earlier, the reviewed firm should submit a copy of the report, the letter of comments, if any, and its response to all matters discussed in the report or letter of comments to the state CPA society administering the review.

The AICPA Peer Review Board has adopted resolutions (see Exhibits 4 and 5) that provide procedures for—

a. Dropping a firm’s enrollment in the AICPA peer review program for failure to

1. File with the state CPA society administering the firm’s peer review information concerning the arrangement or performance of a peer review, including providing the reviewer with information to plan or perform the peer review, or

2. Have a peer review by the required date.

b. Holding a hearing to consider whether a firm’s enrollment in the AICPA peer review program should be terminated for failure to

1. File the report, the letter of comments, if any, and the response thereto related to its peer review, or

2. Failing to acknowledge and complete required corrective or monitoring actions.

In situations requiring a hearing, a firm’s enrollment in the AICPA peer review program will be terminated without a hearing if the firm submits a letter waiving its right to a hearing. The fact that a firm’s enrollment in the AICPA peer review program has been terminated, whether through a hearing or not, will be reported in an AICPA membership periodical.

Fees and Expenses

State CPA societies administering peer reviews under the AICPA peer review program shall be authorized to establish dues or registration fees within their individual jurisdictions to fund the administration of the program.

The AICPA Peer Review Board has adopted a resolution (see Exhibit 4) that provides procedures for dropping a firm’s enrollment in the peer review program for failure to pay fees charged by a state CPA society for the administration of the AICPA peer review program.

State CPA societies administering the AICPA peer review program shall also be authorized to establish the rates at which reviewers will be paid for service on review teams they form. While the rates established may be stratified based on the size and nature of the reviewed firm, the rates should be used uniformly throughout the jurisdiction for review teams it arranges. Firms that perform reviews and associations of CPA firms that assist their members in arranging such reviews may set their own rates in consultation with the reviewed firm.

A firm that arranges for a participating state CPA society, another firm, or an association of CPA firms to perform its peer review is obligated to pay in full the fees and expenses of the review team to which it agreed prior to the commencement of the review.

The Peer Review Board has adopted a resolution that provides procedures for dropping a firm’s enrollment in the peer review program for failing to pay the fees and expenses of a review team formed by a participating state CPA society (see Exhibit 4). In applying these procedures, the state CPA society that formed the review team should notify the reviewed firm in writing (by certified mail) that it has failed to pay the fees and expenses. The notice—

a. Should not be mailed to a reviewed firm until at least 90 days after the firm has been billed for the services.
b. Should indicate that the administering state CPA society's peer review committee will be asked to review the situation, including the reasons for the nonpayment, and decide whether to recommend that the AICPA Peer Review Board drop the firm's enrollment or participation in the peer review program due to this failure pursuant to the established procedures.

c. Should indicate that the reviewed firm has 30 days from the date of the notice in which to pay the unpaid fees and expenses.

d. Should include a copy of the resolution in Exhibit 4.

.43 In deciding on whether to request that a firm's enrollment in the AICPA peer review program be dropped, consideration should be given to whether a disagreement exists between the reviewer, the reviewed firm, and/or the Committee.

Resignations

.44 A firm not in the course of a peer review may resign from the AICPA peer review program by submitting a letter of resignation. However, once a peer review commences a firm will not be able to resign from the peer review program except as stated in paragraph .45 below. 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 state CPA society administering the firm's peer review and may lead to the termination of the firm's enrollment in the program by a hearing panel of the AICPA Peer Review Board.

.45 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 may prescribe the fact that the firm has resigned from the peer review 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 (b) the reviewer or the 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 may prescribe the fact that the firm has resigned from the peer review program and that the situation in a. or b. above existed.

.46 A peer review commences when the review team begins the field work on a system review or begins the review of engagements on engagement and report reviews. A review is deemed completed when the firm has taken any actions deemed necessary by the peer review committee and has been notified of the completion of the review by the administering entity.

.47 A firm that has been terminated from the AICPA Peer Review Program as a result of the resolution in Exhibit 5, may re-enroll in the program once it completes the delinquent action which caused the firm to be terminated. The entity administering the peer review and the AICPA Peer Review Division make the determination of whether the completed action is acceptable. If the firm is past its next peer review due date, the firm will be required to have peer review within 30 days of re-enrolling rather than complete the delinquent action related to its prior peer review.
### Exhibit 1

Entities Administering the AICPA Peer Review Program

<table>
<thead>
<tr>
<th>State Where Main Office of Firm is Located</th>
<th>Name of Entity Administering AICPA Peer Review Program</th>
<th>Telephone No.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alabama</td>
<td>Alabama Society of CPAs</td>
<td>334/834-7650</td>
</tr>
<tr>
<td>Alaska</td>
<td>California Society of CPAs</td>
<td>650/802-2486</td>
</tr>
<tr>
<td>Arkansas</td>
<td>Arkansas Society of CPAs</td>
<td>501/664-8739</td>
</tr>
<tr>
<td>Arizona</td>
<td>California Society of CPAs</td>
<td>650/802-2486</td>
</tr>
<tr>
<td>California</td>
<td>California Society of CPAs</td>
<td>650/802-2486</td>
</tr>
<tr>
<td>Colorado</td>
<td>Colorado Society of CPAs</td>
<td>303/773-2877</td>
</tr>
<tr>
<td>Connecticut</td>
<td>Connecticut Society of CPAs</td>
<td>860/280-1100, ext. 221</td>
</tr>
<tr>
<td>Delaware</td>
<td>Pennsylvania Institute of CPAs</td>
<td>215/496-9272</td>
</tr>
<tr>
<td>District of Columbia</td>
<td>Virginia Society of CPAs</td>
<td>804/270-5344</td>
</tr>
<tr>
<td>Florida</td>
<td>Florida Institute of CPAs</td>
<td>850/224-2727, ext. 250</td>
</tr>
<tr>
<td>Georgia</td>
<td>Georgia Society of CPAs</td>
<td>404/231-8676, ext. 830</td>
</tr>
<tr>
<td>Guam</td>
<td>Oregon Society of CPAs</td>
<td>503/641-7200</td>
</tr>
<tr>
<td>Hawaii</td>
<td>Hawaii Society of CPAs</td>
<td>806/537-9475</td>
</tr>
<tr>
<td>Idaho</td>
<td>Idaho Society of CPAs</td>
<td>208/344-6261</td>
</tr>
<tr>
<td>Illinois</td>
<td>Illinois CPA Society</td>
<td>312/993-0407, ext. 276</td>
</tr>
<tr>
<td>Indiana</td>
<td>Indiana CPA Society</td>
<td>317/726-5000</td>
</tr>
<tr>
<td>Iowa</td>
<td>Iowa Society of CPAs</td>
<td>515/223-8161</td>
</tr>
<tr>
<td>Kansas</td>
<td>Kansas Society of CPAs</td>
<td>785/267-6460</td>
</tr>
<tr>
<td>Kentucky</td>
<td>Kentucky Society of CPAs</td>
<td>502/266-5272</td>
</tr>
<tr>
<td>Louisiana</td>
<td>Society of Louisiana CPAs</td>
<td>504/464-1040</td>
</tr>
<tr>
<td>Maine</td>
<td>New England Peer Review, Inc.</td>
<td>603/623-3513</td>
</tr>
<tr>
<td>Maryland</td>
<td>Maryland Association of CPAs</td>
<td>410/296-6250</td>
</tr>
<tr>
<td>Massachusetts</td>
<td>Massachusetts Society of CPAs</td>
<td>617/556-4000</td>
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<tr>
<td>Michigan</td>
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<td>248/267-3746</td>
</tr>
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<td>Minnesota Society of CPAs</td>
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<td>601/366-9824</td>
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<td>Missouri</td>
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<td>314/997-7966</td>
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<tr>
<td>Montana</td>
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<td>406/442-7301</td>
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<tr>
<td>Nebraska</td>
<td>Nevada Society of CPAs</td>
<td>702/826-6800</td>
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<tr>
<td>Nevada</td>
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<td>702/826-6800</td>
</tr>
<tr>
<td>New Hampshire</td>
<td>New England Peer Review, Inc.</td>
<td>603/623-3513</td>
</tr>
<tr>
<td>New Jersey</td>
<td>New Jersey Society of CPAs</td>
<td>603/623-3513</td>
</tr>
<tr>
<td>New Mexico</td>
<td>New Mexico Society of CPAs</td>
<td>505/246-1699</td>
</tr>
<tr>
<td>New York</td>
<td>New York State Society of CPAs</td>
<td>212/719-8349</td>
</tr>
<tr>
<td>North Carolina</td>
<td>North Carolina Association of CPAs</td>
<td>919/469-1040, ext. 136</td>
</tr>
<tr>
<td>North Dakota</td>
<td>North Dakota Society of CPAs</td>
<td>701/775-7100</td>
</tr>
<tr>
<td>Ohio</td>
<td>Ohio Society of CPAs</td>
<td>614/764-2727</td>
</tr>
<tr>
<td>Oklahoma</td>
<td>Oklahoma Society of CPAs</td>
<td>405/841-3805</td>
</tr>
<tr>
<td>Oregon</td>
<td>Oregon Society of CPAs</td>
<td>503/641-7200</td>
</tr>
<tr>
<td>Pennsylvania</td>
<td>Pennsylvania Institute of CPAs</td>
<td>215/496-9272</td>
</tr>
<tr>
<td>Puerto Rico</td>
<td>Colegio de Contadores Publicos Autorizados</td>
<td>787/754-1950, ext. 223</td>
</tr>
<tr>
<td>Rhode Island</td>
<td>New England Peer Review, Inc.</td>
<td>603/623-3513</td>
</tr>
<tr>
<td>South Carolina</td>
<td>South Carolina Association of CPAs</td>
<td>803/791-4181, ext. 1007</td>
</tr>
<tr>
<td>South Dakota</td>
<td>Oklahoma Society of CPAs</td>
<td>405/841-3805</td>
</tr>
<tr>
<td>Tennessee</td>
<td>Tennessee Society of CPAs</td>
<td>615/377-3825, ext. 126</td>
</tr>
<tr>
<td>Texas</td>
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<td>972/687-8617</td>
</tr>
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<td>Utah</td>
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<td>972/687-8591</td>
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<td>215/496-9272</td>
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<tr>
<td>Virginia</td>
<td>Virginia Society of CPAs</td>
<td>804/270-5344</td>
</tr>
<tr>
<td>Washington</td>
<td>Washington Society of CPAs</td>
<td>425/586-1132</td>
</tr>
<tr>
<td>West Virginia</td>
<td>West Virginia Society of CPAs</td>
<td>304/342-5461</td>
</tr>
<tr>
<td>Wisconsin</td>
<td>Wisconsin Institute of CPAs</td>
<td>262/785-0445</td>
</tr>
<tr>
<td>Wyoming</td>
<td>Nevada Society of CPAs</td>
<td>702/826-6800</td>
</tr>
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</table>
Exhibit 2

<table>
<thead>
<tr>
<th>Field</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Applicant’s Name</td>
<td>Mr. □ Ms. □</td>
</tr>
<tr>
<td>2. AICPA Member Number</td>
<td>(obtain from AICPA Member Card)</td>
</tr>
<tr>
<td>3. Firm Name</td>
<td></td>
</tr>
<tr>
<td>4. Mailing Address</td>
<td>CITY ST ZIP</td>
</tr>
<tr>
<td>5. E-mail Address</td>
<td></td>
</tr>
<tr>
<td>7. Hourly Billing Rate</td>
<td>$</td>
</tr>
<tr>
<td>8. Firm’s Federal I.D. Number</td>
<td></td>
</tr>
<tr>
<td>9. Association(s) of CPA firms* that your firm belongs to, or a non-CPA owned entity** with which your firm is closely aligned. (Use codes on pages 5 and 6 or mark 00 if “None” or 99 for another association or non-CPA owned entity that has not been listed.)</td>
<td></td>
</tr>
<tr>
<td>10. If your firm is closely aligned with a non-CPA owned entity, please provide the names of other firms that are also closely aligned with the non-CPA owned entity, for which you performed audits, reviews, compilations, or other attest engagements, or for which you served in a partner/manager level responsibility for the overall supervision or review of such engagements.</td>
<td></td>
</tr>
</tbody>
</table>

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* An association of CPA firms is defined as (1) any association, network, or alliance of accounting firms or (2) two or more firms or a group of firms (whether a formal or informal group) that jointly market or sell services. If the reviewing firm and the reviewed firm belong to the same association of CPA firms, the association must have filed a plan of administration that has been accepted by the AICPA Peer Review Board and/or the SEC Practice Section Peer Review Committee prior to the peer review being scheduled.

** Certain portions of the CPA firm’s system of quality control may reside at or operate in conjunction with the system of control of a non-CPA owned entity with which the CPA firm is closely aligned through common employment, leasing of employees, equipment, facilities, etc., or other similar arrangements. In this situation, the CPA firm sells all or a portion of its non-attest practice to a non-CPA owned entity. However, the majority of the financial interests in the CPA firm’s attest practice is owned by CPAs.
### QUESTIONS FOR ALL APPLICANTS

11. Total number of professionals, including owners (for this purpose professionals are all personnel who perform professional services that the firm is responsible for, whether or not they are CPAs, and would include leased and per diem staff)².

   □ A One  □ C 6 to 10  □ E 20 to 49  □ G 100 or more
   □ B 2 to 5  □ D 11 to 19  □ F 50 to 99

12. Are you currently practicing at a supervisory level in the accounting and/or auditing function of your firm?

   □ Yes  □ No  *(If no, please skip to Question 16.)*

13. Are you currently practicing as one of the following? *(Please check one.)*

   □ Owner
   □ Manager or equivalent supervisory position
   □ Senior or other staff accountant  □ Leased and per diem staff²

14. Are you currently performing auditing engagements?  □ □

15. How many years experience do you have in public practice in the accounting and/or auditing function?  □ □

16. Do you possess a current license to practice as a certified public accountant?  □ □

17. Have you attended a training course on performing peer reviews? If yes, please check the appropriate box(es) for the course(s) attended and indicate the date and location.

   □ How to Conduct a Review Under the AICPA Practice Monitoring Programs (2 days)
     Date Attended _____ / _____ / _____  City ________ State ______

   □ How to Conduct a Review Under the AICPA Practice Monitoring Programs (1 day
     only for off-site reviews)
     Date Attended _____ / _____ / _____  City ________ State ______

   □ Advanced Training Course for Reviewers: Current Issues in Practice Monitoring
     Date Attended _____ / _____ / _____  City ________ State ______

   □ Other Course ___________________________________________________________
     Author ________________________________________________________________
     Date Attended _____ / _____ / _____  City ________ State ______

18. Are you willing to serve on a system committee-appointed review team?  □ □

19. Are you willing to perform engagement and/or report reviews?  □ □

20. Please indicate if you own or have access to an up-to-date:

   a. SECPs Reference Manual  □ □
   b. SEC Practice Section Peer Review Program Manual  □ □
   c. AICPA Peer Review Program Manual  □ □

---

² Leased and per diem staff are those professionals who devote at least 25% of their time in performing audits, reviews, compilations, or other attest engagements, or those professionals who have the partner/manager level responsibility for the overall supervision or review of such engagements.
### QUESTIONS FOR ALL APPLICANTS

21. Have you met the minimum CPE requirements for peer reviewers under Interpretation No. 4 to the Standards for Performing and Reporting on Peer Reviews for the AICPA Peer Review Program, or Section 8000.01 of the SEC Practice Section Reference Manual for the SEC Practice Section Peer Review Program?

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

22. Has your ability to practice accounting and auditing been limited or restricted in any way by a regulatory, monitoring, or enforcement body (e.g., SEC, GAO, DOL, AICPA Professional Ethics, AICPA Joint Trial Board)?

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

If yes, specify body and explain.

23. Has your firm or the office of the firm with which you are associated had its ability to practice accounting and auditing limited or restricted in any way by a regulatory, monitoring, or enforcement body?

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

If yes, specify body and explain.

24. Please indicate on page 4 all of the practice areas and industries in which you believe you have sufficient familiarity to be qualified as a reviewer.

25. If practice area 5 on page 4 is checked, have you met the CPE Yellow Book requirements?

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

26. Have any firms that you are associated with sold a portion of its non-attest practice to a non-CPA owned entity and/or entered into a service arrangement for staff, office facilities, equipment, etc. with the non-CPA owned entity?

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

If yes, please provide the name of the non-CPA owned entity with whom such arrangements have been entered, the date the agreements were entered into, the details of such agreements, and what services within the practice were sold.

* * * * * * *

If hired to perform a review under one of the AICPA practice-monitoring programs, I agree to perform and report on that review in accordance with the applicable program’s standards and to cooperate fully with the entity administering the review in all matters related to the review. I also agree to ensure that I have access to the applicable program’s manual if I should serve as the team captain on a review.

SIGNATURE: __________________________ DATE: __________
### AREAS OF EXPERIENCE

Please indicate all of the practice areas and industries in which you believe you have sufficient familiarity to be qualified as a reviewer and wish to perform peer reviews, including practice area 9 if you are currently active in auditing. If you have not performed an engagement in an industry in recent years, you should carefully consider your ability to detect engagement deficiencies in that industry before agreeing to perform a peer review of a firm with a client(s) in that industry. To select a practice area or industry, check the code that indicates how much experience was gained. **See the table below for codes.** If you agree to perform a review and you do not have recent experience in an industry, you may be called on to justify why you should be permitted to review an engagement in that industry.

<table>
<thead>
<tr>
<th>PRACTICE AREAS</th>
<th>EXPERIENCE CODE</th>
<th>EXPERIENCE CODE</th>
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</thead>
<tbody>
<tr>
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<td>(check one only)</td>
<td>(check one only)</td>
</tr>
<tr>
<td>1 SEC Rules and Regulations</td>
<td>☐ ☐ ☐</td>
<td>205 Government Contractors</td>
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<tr>
<td>2 Reviews and Compilations (SSARS)</td>
<td>☐ ☐ ☐</td>
<td>210 Health Maintenance Organizations</td>
</tr>
<tr>
<td>3 Prospective Financial Information</td>
<td>☐ ☐ ☐</td>
<td>216 Hospitals</td>
</tr>
<tr>
<td>4 Personal Financial Statements</td>
<td>☐ ☐ ☐</td>
<td>217 Nursing Homes</td>
</tr>
<tr>
<td>5 Audits Under Government Auditing Standards (Yellow Book)</td>
<td>☐ ☐ ☐</td>
<td>222 HUD</td>
</tr>
<tr>
<td>7 Audits of Federally Insured Depository Institutions (with more than $500 million in total assets)</td>
<td>☐ ☐ ☐</td>
<td>225 Insurance Agents and Brokers</td>
</tr>
<tr>
<td>9 Other Audits</td>
<td>☐ ☐ ☐</td>
<td>230 Investment Companies and Mutual Funds</td>
</tr>
<tr>
<td>10 Audits of Employee Benefit Plans</td>
<td>☐ ☐ ☐</td>
<td>235 Leasing Companies</td>
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<tr>
<td>11 Attest Services (Excludes Prospective Financial Information)</td>
<td>☐ ☐ ☐</td>
<td>240 Life Insurance Companies</td>
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<tr>
<td>12 Agreed-Upon Procedures Under SAS No. 75</td>
<td>☐ ☐ ☐</td>
<td>245 Manufacturing</td>
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<td>INDUSTRIES</td>
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<td>110 Agricultural, Livestock, Forestry &amp; Fishing</td>
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<td>115 Airlines</td>
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<td>255 Motor Carriers</td>
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<td>260 Not-for-Profit Organizations (including Voluntary Health and Welfare Organizations)</td>
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<td>125 Banking</td>
<td>☐ ☐ ☐</td>
<td>265 Employee Benefit Plans (including ERISA Audits)</td>
</tr>
<tr>
<td>130 Broadcasting and Entertainment</td>
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<td>270 Professional Services (Doctors, Lawyers, Architects, etc.)</td>
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<td>135 Brokers and Dealers in Securities</td>
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<td>275 Publishing</td>
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<tr>
<td>140 Brokers and Dealers in Commodities</td>
<td>☐ ☐ ☐</td>
<td>280 Real Estate Brokerage</td>
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<td>145 Casinos</td>
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<td>285 Real Estate Development</td>
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<td>150 Colleges and Universities</td>
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<td>295 Real Estate Investment Trusts</td>
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<td>155 Common Interest Realty Associations</td>
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<td>300 Reinsurance Companies</td>
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<td>160 Computer Software Development and Sales</td>
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<td>305 Retail Trade</td>
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<td>165 Construction Contractors</td>
<td>☐ ☐ ☐</td>
<td>308 Rural Utilities Services Borrowers</td>
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<tr>
<td>170 Continuing Care Retirement Communities</td>
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<td>310 Savings and Loan Associations</td>
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<td>175 Credit Unions</td>
<td>☐ ☐ ☐</td>
<td>315 Small Loan Companies</td>
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<tr>
<td>180 Extractive Industries—Oil and Gas</td>
<td>☐ ☐ ☐</td>
<td>320 School Districts</td>
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<td>185 Extractive Industries—Mining</td>
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<td>325 State and Local Government</td>
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<tr>
<td>186 Federal Financial Assistance Programs</td>
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<td>330 Telephone Companies</td>
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<td>190 Finance Companies</td>
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<td>335 Utilities</td>
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<td>195 Franchisors</td>
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<td>340 Wholesale Distributors</td>
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* **EXPERIENCE CODES**
  A—Currently supervising or performing an engagement
  B—Supervising or performing engagements in past 5 years
  C—Supervising or performing pre-issuance engagement review within 3 years

**PLEASE RETURN THE COMPLETED FORM TO:**
American Institute of CPAs  
Practice Monitoring  
Harborside Financial Center  
201 Plaza Three  
Jersey City, NJ 07311-3881  
(201) 938-3030

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<td>ACPAI ACPA International</td>
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<td>0004</td>
<td>APA The Alliance of Practicing CPAs</td>
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<td>0005</td>
<td>AAHC American Association of Hispanic CPAs</td>
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<tr>
<td>0006</td>
<td>ATAC Apparel and Textile Accounts International</td>
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<td>AAFI Associated Accounting Firms International</td>
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<td>0008</td>
<td>CALGAF California Group of Accounting Firms</td>
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<td>CALV California Affiliates</td>
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<td>NCTA National CPA Task Force</td>
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<td>0041</td>
<td>PVI Pacific Vision International</td>
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<td>0042</td>
<td>PKF Pannell Kerr Forster</td>
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<tr>
<td>0043</td>
<td>SAAF Southern Association of Accounting Firms</td>
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<td>0044</td>
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**ASSOCIATION CODES**
CODES FOR NON-CPA OWNED ENTITIES*

1005 AXTBS  American Express Tax and Business Services
1010 CBS   Century Business Services
1015 HRB   HRB Business Services
1020 CTR   Centerprise Advisors

* Certain portions of the CPA firm’s system of quality control may reside at or operate in conjunction with the system of control of a non-CPA owned entity with which the CPA firm is closely aligned through common employment, leasing of employees, equipment, facilities, etc., or other similar arrangements. In this situation, the CPA firm sells all or a portion of its non-attest practice to a non-CPA owned entity. However, the majority of the financial interests in the CPA firm’s attest practice is owned by CPAs.
Exhibit 3

ISO9001 Certified

If one or more of the branches of your firm is interested in performing peer reviews of other firms enrolled in an Institute-approved practice-monitoring program, please provide the following information for each branch that wishes to be included in the AICPA reviewing firm data bank. Feel free to make as many copies of this form as needed. The information included on this form will be provided to other firms, who request the names of firms located in a particular geographic area, that are interested in performing reviews.

1. Firm Number  [ ]  Branch Number  [ ]
2. Firm Name

3. Branch Address

4. Person to contact at the branch regarding reviews:
   Mr. □  Ms. □
   [ ]  [ ]  [ ]  [ ]  [ ]
   FIRST  MI  LAST
   Telephone Number ( ) —  Ext. [ ]

5. E-mail Address

6. Please indicate if the branch is willing to perform peer reviews of firms in the:
   Yes  No
   a. SEC Practice Section  □  □
   b. AICPA Peer Review Program  □  □

7. Signature ________________________________  Date __________________

Please return this form to:

American Institute of Certified Public Accountants
Practice Monitoring
Harborside Financial Center
201 Plaza Three
Jersey City, NJ 07311-3881

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Exhibit 4
AICPA PEER REVIEW BOARD RESOLUTION
(Adopted April 29, 1996)

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 state CPA society administering its review 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 for disciplinary purposes, thirty days after the AICPA Peer Review Program notifies the firm by certified mail that the firm has failed to—

1. File requested information with the state CPA society administering the firm’s peer review concerning the arrangement or performance of that peer review,

2. 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, or

4. Pay in full the fees and expenses of the review team formed by an administering state CPA society,

5. Pay fees related to the administration of the program that have been authorized by the governing body of an administering state CPA society.

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.
**Exhibit 5**

**AICPA PEER REVIEW BOARD RESOLUTION**

(Adopted April 29, 1996, with amendments through January 8, 2001)

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 state CPA society administering its review 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 state CPA society administering its review by (1) failing to 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 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 state CPA society administering its review would also include failing to receive an unmodified peer review report 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 comments with significant deficiencies are considered equivalent to failing to receive an unmodified report for the purposes of this resolution.

BE IT FURTHER RESOLVED: The state CPA society has the authority to determine if a firm’s response is substantive. If the state CPA society 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 state CPA society, this would also be deemed as 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 letter from the firm waiving its right to a hearing; 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.
Exhibit 6
SAMPLE ENGAGEMENT LETTER

[Letterhead of Administering State CPA Society for CART Reviews]

(Date)

(Managing Partner's Name)

(Firm Name)

Re: Review Number ______________________

Dear (Managing Partner's Name):

You asked us to appoint a reviewer(s) to perform a peer review of your firm’s accounting and auditing practice. We are willing to arrange for such an engagement, under the terms and conditions set forth in this letter.

The attachment to this letter contains information on the reviewer(s). If any changes need to be made in the reviewer(s), we will notify you immediately and ask you to authorize those changes.

Scope of the Review

The review will be performed in accordance with the AICPA Standards for Performing and Reporting on Peer Reviews, issued by the AICPA Peer Review Board. These standards require, among other things, that the review be conducted in compliance with the confidentiality requirements set forth in the AICPA Code of Professional Conduct. Information concerning the review firm or any of its clients or personnel, including the findings of the review, that is obtained as a consequence of the review is confidential. Such information shall not be disclosed by reviewer(s) to anyone not involved in carrying out the review or administering the peer review program or used in any way not related to meeting the objectives of the program. Also, no reviewer(s) will have contact with clients of your firm.

If it is necessary to obtain the consent of your clients for review of files and records pertaining to them, you will assume the responsibility for obtaining such consent.

Liability and Subpoena

You agree not to take, or assist in, any action seeking to hold liable, jointly or singly, us or the reviewer(s) including any staff, assistants, committees or the reviewer(s) or their firms for damages on account of any good faith act or omission or on account of any deficiency in the files overall, unless those damages arise from malice, gross negligence, or recklessness or any violation of the confidentiality standards issued by the AICPA in its Code of Professional Conduct and/or the confidentiality standard issued in the AICPA Standards for Performing and Reporting on Peer Reviews. Also, you agree not to subpoena any of those persons or organizations, or otherwise call them to testify, in any action to which they are not a party, with respect to any of the work performed, reports made, or information acquired or developed in connection with this review. However, this provision shall not apply if some other person has done that successfully and you conclude you must do so in response.

Timing of Review and Fees

We anticipate that the review will begin on (date of commencement) and take between _____ and _____ hours to complete. However, this is only an estimate and reviewer time will be billed at actual.

The reviewer(s) billing rates are set forth in the attachment. Your firm will also be expected to pay for all reviewer out-of-pocket expenses and the administrative fees established by the American Institute of
Certified Public Accountants for the scheduling of the review and the evaluation of the review results. The administrative fee structure is also set forth in an attachment to this letter.\(^1\)

You will receive an invoice for fifty percent of the professional charges based on the upper range of the budget estimate, which must be paid at least 10 days prior to the commencement of the fieldwork on the review for the review to take place. However, under certain circumstances, other progress bills may also be rendered. A final invoice will be sent to you after the report on your review has been issued. A late charge of 1.5% per month will be assessed on all balances not paid within 90 days.\(^2\)

The AICPA Peer Review Board has established a policy that a firm may not resign from the peer review program during the course of its peer review except as set forth in PRP section 2100.44-.47 of the AICPA Peer Review Program Manual. This applies even if the owners of the firm are no longer members of the AICPA or the firm dissolved after the commencement of the peer review. The peer review commences when the review team begins the fieldwork on a system review or begins the review of engagements on an engagement review or a report review. A review is deemed completed when the firm has taken any actions deemed necessary by the peer review committee and has been notified of the completion of the review by the administering entity.

If you accept these terms and conditions, please sign and return the enclosed copy of this letter. This letter, including the attachments, will then become a contract between you and us.

Sincerely,

________________________________________

________________________________________

________________________________________

We consent to the terms and conditions described in this letter.

________________________________________  Date

________________________________________

By

________________________________________

Position

---

\(^1\) The AICPA or state society may insert the information needed in this sentence, delete it entirely, or revise it, depending on the fee structure adopted.

\(^2\) State societies may wish to revise this paragraph.
Attachment to Engagement Letter Dated ____________

REVIEW TEAM CAPTAIN/REVIEWER

Name:  
AICPA Member Number:  
Firm Name:  
AICPA Firm Number:  
Address:  
Telephone Number:  
Position:  Billing Rate on the Review: $ /hour  
Years of Accounting and Auditing Experience:  
Areas of Experience:  

Size of Reviewer's Firm:  
Date of Firm's Last Review (if any):  
Practice Monitoring Program(s) to Which the Reviewer's Firm Currently Belongs:  

AICPA Peer Review Program Manual

PRP §2100.53
REVIEW TEAM MEMBER

Name: AICPA Member Number:
Firm Name: AICPA Firm Number:
Address:

Telephone Number: Billing Rate on the Review: $ /hour
Position:

Years of Accounting and Auditing Experience:
Areas of Experience:

Size of Reviewer's Firm:
Date of Firm's Last Review (if any):
Practice Monitoring Program(s) to Which the Reviewer's Firm Currently Belongs:

[The next page is 2201.]

* Print out this information for each review team member.
[Reserved.]

[The next page is 3001.]
PRP Section 3000
Guidance for Performing and Reporting on Peer Reviews

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[The next page is 3145.]
PRP Section 3100

Standards for Performing and Reporting on Peer Reviews

Notice to Readers

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

A firm (or individual) enrolled in the AICPA peer review program or a member firm of the SEC Practice Section (SECPS) is deemed to be enrolled in an approved practice-monitoring program. (See sections 2.2.3 and 2.3.4 and 7.6 of the bylaws of the AICPA, The Code of Professional Conduct Rule 505, and the implementing council resolutions under those sections.)

These standards are effective for peer reviews commencing on or after January 1, 2001 for firms (and individuals) enrolled in the AICPA peer review program. 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 state CPA societies 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 issued by the AICPA Peer Review Board that might affect the application of these standards.

Reviews of firms that are members of the SEC Practice Section of the AICPA Division for CPA Firms are carried out under the standards issued by the SECPS’s Peer Review Committee that address, among other things, the various membership requirements of the section applicable to audits of SEC clients.
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Introduction

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

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

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

b. Have independent peer reviews\(^2\) of their accounting and auditing practices at least once every three years.

c. Take remedial, corrective actions as needed.

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

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

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

.06 The program is based on the principle that a systematic monitoring and educational process is the most effective way to attain high-quality performance throughout the profession. Thus, it depends on mutual

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\(^1\) See Peer Review Standards Interpretations developed by the AICPA Peer Review Board for guidance related to individual enrollment requirements and applicability of these Peer Review Standards to individuals enrolled in the AICPA peer review program.

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

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

\(^4\) Firms that issue compilation reports under SSARS where “Selected Information—Substantially All Disclosures Required are Not Included” are required to have an engagement review.

\(^5\) Reviewers should be alert to Peer Review Standards Interpretations developed by the AICPA Peer Review Board for guidance when system reviews may be performed at a location other than the reviewed firm’s office.
trust and cooperation. The reviewed firm is expected to take appropriate actions in response to deficiencies in its system of quality control, its compliance with that system, or both. These actions will be positive and remedial. Disciplinary actions (including actions that can result in the termination of a firm’s enrollment in the peer review program and the subsequent loss of membership in the AICPA and some state CPA societies by its partners and employees) will be taken only for a failure to cooperate or for deficiencies that are so serious that remedial or corrective actions are not suitable.

General Considerations

Enrollment Requirements

.07 Firms (and individuals) enrolled or seeking enrollment in the AICPA peer review program should comply with Council resolutions (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.6

Confidentiality

.08 A peer review should be conducted in compliance with the confidentiality requirements set forth by the AICPA in the section of the Code of Professional Conduct entitled “Confidential Client Information” (AICPA, Professional Standards, vol. 2, ET sec. 301). Information concerning the reviewed firm or any of its clients or personnel, including the findings of the review, that is obtained as a consequence of the review is confidential. Such information should not be disclosed by review team members to anyone not involved in carrying out the review or administering the program, or used in any way not related to meeting the objectives of the program.

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

Independence, Integrity, and Objectivity

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

.11 Independence encompasses an impartiality that recognizes an obligation for fairness not only to the reviewed firm but also to those who may use the peer review report. The reviewing firm, the review team, and any other individuals who participate on the peer review should be free from any obligation to, or interest in, the reviewed firm or its personnel. The concepts in the AICPA Code of Professional Conduct’s Article III, “Integrity,” and Article IV, “Objectivity and Independence” (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,” apply. Integrity requires the review team to be honest and candid within the constraints of the reviewed firm’s confidentiality. Service and the public trust should not be subordinated to personal gain and advantage. Objectivity is a state of mind and a quality that lends value to a review team’s services. The principle of objectivity imposes the obligation to be impartial, intellectually honest, and free of conflicts of interest. The AICPA Peer Review Board may issue guidance, by Interpretations, related to Independence, Integrity, and Objectivity.7

6 Depending on how a CPA firm is legally organized, its partner(s) could have other names, such as shareholder, member, or proprietor.
7 Reviewers should be alert to Peer Review Standards Interpretations developed by the AICPA Peer Review Board for guidance related to independence, integrity and objectivity.
Competence

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

Due Professional Care

.13 Due professional care, as addressed by the AICPA Code of Professional Conduct in Article V, "Due Care" (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

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

Organization of the Review Team

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

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

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

Qualifications for Service as a Reviewer

General

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

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8 The plan of administration adopted by an association of CPA firms that assists its members in arranging and carrying out peer reviews may provide that the association will communicate the review team's findings to the state CPA society administering the review.
a. Be a member of the AICPA in good standing (that is, AICPA membership in active status) licensed to practice as a certified public accountant with a firm enrolled in the AICPA peer review program or the SEC Practice Section that, if reviewed, has received an unmodified report on its system of quality control or an unmodified report on its engagement review or off-site peer review.9

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

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

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

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

.20 An individual may not serve as a peer reviewer if his or her ability to practice accounting or auditing has been limited or restricted in any way by a regulatory, monitoring, or enforcement body until the limitation or restriction has been removed. If the limitation or restriction has been placed on the firm, or one or more of its offices, then none of the individuals associated with the firm, or the portion thereof, may serve as reviewers.

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

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

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

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

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

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

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

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

Engagement and Report Reviewers

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

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

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

Performing System Reviews

Objectives

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

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

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

Peer Review Risk

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

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

b. Issues an inappropriate opinion on the reviewed firm’s system of quality control for its accounting and auditing practice, its compliance with that system, or both.
c. Reaches an inappropriate decision about the findings to be included in, or excluded from, the letter of comments, or about whether to issue a letter of comments.

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

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

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

.29 Inherent risk and control risk relate to the reviewed firm’s accounting and auditing practice and its system of quality control and should be assessed by the review team in planning the review. Based on that assessment, the review team determines the offices and engagements to be selected for review to reduce peer review risk to an acceptable low level. The lower the inherent and control risk, the higher the detection risk that can be tolerated and vice versa. The assessment of these risks is qualitative and not quantitative.

**Basic Requirements**

.30 A system review should include the following procedures:

a. Plan the review, as follows.

1. Obtain a sufficient understanding of the nature and extent of the firm’s accounting and auditing practice to plan the review. See paragraph .40.

2. Obtain a sufficient understanding of the design of the firm’s system of quality control, including an understanding of the monitoring procedures performed since the prior review, to plan the review. See paragraph .41.

3. Assess the peer review risk. See paragraphs .42 and .43.

4. Use the knowledge obtained from the foregoing to select the offices and the engagements to be reviewed, and to determine the nature and extent of the tests to be applied in the functional areas. See paragraphs .44 and .49.

b. Perform the review, as follows.

1. Review compliance by the firm with its system of quality control. The review should cover all organizational or functional levels within the firm.

2. Review selected engagements, including the relevant working paper files and reports. See paragraphs .50 and .54.

3. Reassess the adequacy of the scope of the review based on the results obtained to determine whether additional procedures are necessary.

\(^{12}\) Inherent risk is the likelihood that an accounting or auditing engagement will fail to conform with professional standards, assuming the firm does not have a system of quality control.

\(^{13}\) Control risk is the risk that a firm’s system of quality control will not prevent the performance of an engagement that does not conform with professional standards. It consists of two parts: the firm’s control environment and its quality control policies and procedures. The control environment represents the collective effort of various factors on establishing, enhancing, or mitigating the effectiveness of specific quality control policies and procedures. The control environment reflects the overall attitude, awareness, and actions of firm management concerning the importance of quality work and its emphasis in the firm.
4. Have an exit conference with senior members of the reviewed firm and at least the team captain to discuss the review team’s findings and recommendations and the type of report it will issue. See paragraph .55.

5. Prepare a written report on the results of the review and, if applicable, a letter of comments. See paragraphs .72 through .79.

6. Review and comment to the reviewed firm on the firm’s response to the letter of comments, if any. See paragraph .80.

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

Scope of the Review

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

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

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

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

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

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

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

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

Understanding Accounting and Auditing Practice and System of Quality Control

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

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

Assessing Peer Review Risk

.42 In planning the review, the review team should use the understanding it has obtained of the reviewed firm’s accounting and auditing practice and its system of quality control to assess the peer review risk associated with those areas. The higher the assessed levels of peer review risk, the greater the number of offices or engagements that need to be reviewed. The assessed level of peer review risk may be affected by circumstances arising within the firm (for example, individual partners have engagements in numerous specialized industries or the firm has a few engagements constituting a significant portion of the firm’s accounting and auditing practice) or outside the firm (for example, new professional standards being applied for the first time or adverse economic developments in an industry).
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. When making the evaluation, the review team should discuss with the firm how it considered the guidance provided in the AICPA’s Guide for Establishing and Maintaining a System of Quality Control for a CPA Firm’s Accounting and Auditing Practice.

Extent of Compliance Tests

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

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

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

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

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

Selection of Offices

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

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

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

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

d. Recently merged or recently opened offices

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

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

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

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

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

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

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

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

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

Extent of the Review of Engagements

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

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

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

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14 Reviewers should be alert to Peer Review Standards Interpretations developed by the AICPA Peer Review Board that might affect the engagements selected for review.
b. The firm did not have a reasonable basis under applicable professional standards for the report issued.

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

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

.52 If the review team answers yes with respect to any of the preceding items, the team captain should promptly inform an appropriate member of the reviewed firm (generally on a “Matter for Further Consideration” form). The reviewed firm should investigate the matter questioned by the review team and determine what action, if any, should be taken. If the reviewed firm concludes that its report on previously issued financial statements is inappropriate, as addressed in the section of SAS No. 1 entitled “Subsequent Discovery of Facts Existing at the Date of the Auditor’s Report” (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 (generally on the “Matter for Further Consideration” form prepared by the reviewer).

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

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

Exit Conference

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

Performing Engagement Reviews

Objectives

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

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

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

Basic Requirements

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

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

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

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

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

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

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

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

.60 An engagement review does not include a review of working papers prepared on the engagements submitted for review (other than the documentation referred to in paragraph .59), tests of the firm’s administrative or personnel files, interviews of selected firm personnel, or other procedures performed in a system review. Accordingly, an engagement review does not provide the reviewer with a basis for expressing any form of assurance on the firm’s system of quality control for its accounting practice. The reviewer’s report does indicate, however, whether anything came to the reviewer’s attention that caused him or her to believe that the reports submitted for review did not conform with the requirements of professional standards in all material respects or that the documentation on those engagements did not comply with the applicable requirements of SSARS and the SSAEs in all material respects.
A firm that has an engagement review should respond promptly to questions raised in the review, whether those questions are raised orally or in writing on a “Matter for Further Consideration” form. The reviewer will contact the firm, before issuing the peer review report, to resolve questions raised in the review.

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

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

Performing Report Reviews

Objectives

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

Basic Requirements

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

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

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

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.

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

A report review does not include a review of the working papers prepared on the engagements submitted for review, tests of the firm’s administrative or personnel files, interviews of selected firm personnel, or other procedures performed in a system or engagement review. Accordingly, a report review does not provide the reviewer with a basis for expressing any form of assurance on the firm’s system of quality control for its accounting practice.
69 A firm that has a report review should respond promptly to questions raised in the review, whether those questions are raised orally or in writing. The reviewer will contact the firm, before issuing the peer review report, to resolve questions raised in the review.

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

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

**Reporting on System Reviews**

**General**

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

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

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

**Reports on System Reviews**

75 The written report on a system review should—

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

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

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

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

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

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

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

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

Letters of Comments on System Reviews

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

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

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

Letters of Response on System Reviews

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

Reporting on Engagement Reviews

.81 The written report on an engagement review should—

a. State that the review was conducted in accordance with standards established by the Peer Review Board of the AICPA.
b. Describe the limited scope of the review and disclaim an opinion or any form of assurance about the firm’s system of quality control for its accounting practice.

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

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

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

.82 In deciding on the type of report to be issued, the reviewer should be guided by the considerations in Appendix G, “Considerations Governing the Type of Report Issued on an Engagement Review.” For illustrations, see “Standard Form for an Unmodified Report on an Engagement Review,” in Appendix H, and Appendix I, “Illustrations of Modified and Adverse Reports on an Engagement Review.”

Letters of Comments on Engagement Reviews

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

.84 The letter of comments on an engagement review should be prepared in accordance with Appendix J, “Guidelines for and Illustration of a Letter of Comments on an Engagement Review.”

Letters of Response on Engagement Reviews

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

Reporting on Report Reviews

.86 The written report on a report review should—

a. State that the review was conducted in accordance with standards established by the Peer Review Board of the American Institute of Certified Public Accountants.
b. Describe the limited scope of the review and disclaim an opinion or any form of assurance about the firm’s system of quality control for its accounting practice.

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

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

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

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

.88 The report on a report review should be prepared in accordance with Appendix L, “Illustration of a Report on a Report Review.”

Acceptance of System, Engagement, and Report Reviews

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

a. The firm’s name and address

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

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

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

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

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

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

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

c. It should require any remedial, corrective actions in addition to those described by the reviewed firm in its letter of response. Examples of such corrective actions are requiring certain individuals to obtain specified kinds and amounts of continuing professional education, requiring the firm to carry out more comprehensive monitoring procedures, or requiring it to engage another CPA to perform preissuance reviews of financial statements and reports, or to attempt to strengthen its professional staff.
d. It should monitor the corrective actions implemented by the reviewed firm. Examples of monitoring procedures are requiring the firm to submit information concerning CPE obtained by firm personnel, reports on the reviewed firm's monitoring of its practice, or reports by another CPA engaged to perform preissuance reviews of financial statements and reports. Revisits by team captains and accelerated peer reviews are other examples of monitoring procedures.

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

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

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

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

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

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

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15 The required qualifications, responsibilities and the role of technical reviewers are included in the AICPA Peer Review Program Report Acceptance Body Handbook which is provided to all administering entities.
If a decision is made by the hearing panel to terminate a firm’s enrollment in the AICPA peer review program, the firm will have the right to appeal to the AICPA Joint Trial Board for a review of the findings. The trial board will have the authority to confirm or to reduce the severity of the findings, but it will not have the authority to increase their severity. The fact that a firm’s enrollment in the AICPA peer review program has been terminated shall be published in such form and manner as the AICPA council may prescribe.

Evaluation of Reviewers

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

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

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

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

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

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

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

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

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

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

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

Qualifications of Committee Members

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

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

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

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

Effective Date

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

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

Reciprocal Reviews

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

Relationships With Clients of the Reviewed Firm

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

Relationships With the Reviewed Firm

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

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

5. If arrangements exist between the reviewed firm and the reviewing firm or the firm of any member of the review team whereby fees, office facilities, or professional staff are shared, independence for the purposes of this program is impaired. Similarly, independence would be considered to be impaired by sharing arrangements involving, for example, frequent continuing education programs (CPE), extensive consultation, prejudgment reviews of financial statements and reports, and audit and accounting manuals. In such circumstances, the firms involved are sharing materials and services that are an integral part of their systems of quality control. However, the impairment would be removed if an independent review was made of the shared materials (such as CPE programs or an audit and accounting manual) before the peer review commenced and that independent review was accepted by the SEC Practice Section Peer Review Committee of the AICPA Division for CPA Firms before that date. (All quality control materials and CPE programs are accepted by the SECPS Peer Review Committee for both the SECPS and AICPA peer review programs. Therefore, firms that share materials and services are advised to consult with the SECPS peer review program if an independent review of such shared materials and services appears necessary.) Also, independence for the purposes of this program is not impaired by the performance of a review of a firm’s quality control document, of a preliminary quality control procedures review or consulting review, or an inspection.
.109 Appendix B

Considerations Governing the Type of Report Issued on a System Review

Limitation on Scope of Review

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

The Nature and Significance of Engagement Deficiencies

2. The overriding objective of a system of quality control is to provide the firm with reasonable assurance of conforming with professional standards in the conduct of its accounting and auditing practice. When a review team encounters significant failures to reach appropriate conclusions, particularly those requiring the application of AICPA Statement on Auditing Standards (SAS) No. 46, Consideration of Omitted Procedures After the Report Date (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 to professional standards. The review team’s first task in such circumstances is to try to determine the cause of the failure. Causes that might be systems-related and might affect the type of report issued include the following.

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

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

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

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

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

The Pattern and Pervasiveness of Engagement Deficiencies

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

**Design Deficiencies**

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

**Forming Conclusions**

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

Standard Form for an Unmodified Report on a System Review

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

August 31, 20XX

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

or

To John B. Able, CPA

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

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

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

In our opinion, the system of quality control for the accounting and auditing practice of [Name of firm] in effect for the year ended June 30, 20XX, has been designed to meet the requirements of the quality control standards for an accounting and auditing practice established by the AICPA and was complied with during the year then ended to provide the firm with reasonable assurance of conforming with professional standards.

John Brown, Team Captain
[or Name of reviewing firm]

* 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.

AICPA Peer Review Program Manual

PRP §3100.110
.111 Appendix D

Illustrations of Modified and Adverse Reports on a System Review

Report Modified for Design Deficiency

[Separate paragraph after the standard first three paragraphs]

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

[Opinion paragraph]

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

Modified Report for Noncompliance With Quality Control Policies and Procedures

[Separate paragraph after the standard first three paragraphs]

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

[Opinion paragraph]

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

Adverse Report

[Separate paragraph after the standard first three paragraphs]

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

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

[Opinion paragraph]

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

PRP §3100.111
.112 Appendix E

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

Guidelines

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

2. The letter should be addressed, dated, and signed in the same manner as the report on the system review, and should include the following:
   
   a. A reference to the report on the review, indicating, where applicable, that the report was modified or adverse

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

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

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

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

Illustration of a Letter of Comments

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

August 31, 20XX

[Should correspond with date of report]

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

or

To John B. Able, CPA

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

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

Engagement Performance

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

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

Matters That Did Not Result in a Modified Report‡

Engagement Performance

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

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

Monitoring

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

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

[Same signature as on the report on the system review]
Illustration of a Response by a Reviewed Firm to a Letter of Comments on a System Review

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

Sample Letter of Response

September 15, 20XX

[Addressed to the state CPA society administering the review]

Ladies and Gentlemen:

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

Matters That Resulted in a Modified Report

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

Matters That Did Not Result in a Modified Report

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

* This caption is to be used only if a modified or adverse report is being issued and should be tailored to fit the circumstances.
Considerations Governing the Type of Report
Issued on an Engagement Review

Circumstances Calling for a Modified Report

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

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

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

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

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

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

Circumstances Calling for an Adverse Report

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

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

Standard Form for an Unmodified Report on an Engagement Review

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

August 31, 20XX

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

or

To John B. Able, CPA

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

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

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

John Brown, Reviewer
[or Name of reviewing firm]

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† The report should use the plural "we," "us," and "our" even if the review team consists of only one person. The singular "I," "me," and "my" is appropriate only if the reviewed firm has engaged another firm to perform its review and the reviewing firm is a sole practitioner.

§ Language included when firm submits engagements with documentation requirements.

Language included when firm has no engagements with documentation requirements.

The description Reviewer, not Team Captain, should be used in reports on engagement reviews.
Appendix I

Illustrations of Modified and Adverse Reports on an Engagement Review

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

Modified Report for Significant Departures From Professional Standards

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

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

[Concluding paragraph]

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

Adverse Report

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

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

[Adverse concluding paragraph]

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

Guidelines

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

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

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

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

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

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

Illustration of a Letter of Comments

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

August 31, 20XX

[Should correspond with date of report]

To the Partners [or other appropriate terminology]

Able, Baker & Co.

or

To John B. Baker, CPA

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

Matters That Resulted in a Modified Report†

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

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

† This phrase is to be used only if a modified or adverse report is being issued and should be tailored to fit the circumstances.
Recommendation—We recommend that the firm review the reports issued during the last year and identify those reports that should have been modified to reflect a comprehensive basis of accounting other than generally accepted accounting principles. A memorandum should then be prepared highlighting the changes to be made in the current year and placed in the files of the client for whom a report must be changed.

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

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

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

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

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

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

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

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

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

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

Matters That Did Not Result in a Modified Report

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

\[\text{This caption is to be used only if a modified or adverse report is being issued and should be tailored to fit the circumstances.}\]
Recommendation—The firm should revise the standard reports used by the firm to conform with professional standards governing reporting on supplemental data presented with basic financial statements.

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

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

[Same signature as on the report on the engagement review]
Illustration of a Response by a Reviewed Firm to a Letter of Comments on an Engagement Review

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

Sample Letter of Response

[Addressed to the state CPA society administering the review]

September 15, 20XX

Ladies and Gentlemen:

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

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

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

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

Sincerely,

[Name of firm]

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

Illustration of a Report on a Report Review

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

August 31, 20XX

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

or

To John B. Able, CPA

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

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

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

or

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

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

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

2. **Comment**—During our review of the accountants’ reports issued by the firm, we noted numerous instances in which the accompanying financial statements departed from professional standards and on which the accountants’ reports were not appropriately modified. These included failure to do the following:
   - Appropriately recognize revenue.
   - Present financial statements in a proper format.
   - Recognize conflicting or incorrect information within the financial statements presented.
In one instance, the firm has discussed the departures with its client and decided to recall its report and restate the accompanying financial statements.

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

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

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

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

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

[Smith & Jones, CPAs]
[Signature]

Authorized acknowledgement for the reviewed firm:

I acknowledge that there are no disagreements on significant matters (and that the firm agrees to correct matters included as comments by implementing the above recommendation(s)).

Signature: ___________________________ Title: ___________________________ Date: ___________________________

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

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Senior Technical Manager
AICPA Peer Review Program

[The next page is 3209.]
PRP Section 3200
Peer Review Standards Interpretations

Notice to Readers

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

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Interpretation No. 1—System Reviews Performed at a Location Other Than the Practitioner’s Office

.01 Question: Paragraph 5 of the Standards for Performing and Reporting on Peer Reviews (PRP section 3100.05) states: “The AICPA Peer Review Board may issue guidance, by Interpretations, when system reviews may be performed at a location other than the reviewed firm’s office.” What criteria has been established by the Board?

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

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

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

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

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

e. A list of relevant technical publications used as research materials, as referred to in the questions of quality control policies and procedures questionnaire (see AICPA Peer Review Program Manual).

f. A list of audit and accounting materials, if any, identified in response to the questions in the “Engagement Performance” section of the quality control policies and procedures questionnaire (see AICPA Peer Review Program Manual).

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

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

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

j. Any other evidential matter requested by the reviewer

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

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

PRP §3200.01
Interpretation No. 2—Engagement Selection in System Reviews

.05 Question: Paragraph 48 of the Standards for Performing and Reporting on Peer Reviews (PRP section 3100.48), states: “The AICPA Peer Review Board may from time to time, by Interpretations, require that specific types of engagements be selected for review—for example, engagements required by a regulatory agency to be reviewed or those in particular areas in which public interest exists.” On a system review, what specific types and/or number of engagements, if any, should be included in the sample of engagements selected for review or assessed at a higher level of peer review risk?

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

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

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

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

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

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

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

Peer reviewers should not review any audits of SEC issuers that were performed by the firm on or after October 22, 2003 under any circumstances. If a firm was never registered with the PCAOB when it was (is) required to be, the reviewer or the administering entity should immediately contact Program staff prior to the peer review commencing.

Interpretation No. 3—Team Captain and Reviewer Training Courses

.08 Question: Paragraph 23 of the Standards for Performing and Reporting on Peer Reviews (PRP section 3100.23) states that a team captain on a system review should “have completed a training course or courses that meet requirements established by the AICPA Peer Review Board” in order to qualify for service as a team captain. Paragraph 24 of the Standards for Performing and Reporting on Peer Reviews (PRP section 3100.24) states that a reviewer on an engagement or report review should “have completed a training course or courses that meet requirements established by the AICPA Peer Review Board” in order to qualify for service as a reviewer. What specific type of course or courses, if any, should a system review team captain, engagement and report reviewer complete?

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

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

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

Interpretation No. 4—Minimum CPE Requirement for Peer Reviewers

.12 Question: Paragraph 18(b) of the AICPA Standards for Performing and Reporting on Peer Reviews (See PRP section 3100.18(b)) states that an individual serving as a reviewer should possess current knowledge of applicable professional standards. This includes knowledge about current rules and regulations applicable to the industries for which engagements are reviewed. Such knowledge may be obtained from on-the-job training, training courses, or a combination of both. Is there a minimum amount of continuing professional education (CPE) required to be a reviewer?

.13 Interpretation: The fundamental purpose of CPE is to maintain and/or increase professional competence. AICPA members are required to participate in 120 hours of CPE every three years. In order to maintain current knowledge of accounting and auditing standards, reviewers should obtain at least 40 percent of the AICPA required CPE in subjects relating to accounting and auditing. Reviewers should obtain at least eight (8) hours in any one year and forty-eight hours every three years. The term accounting and auditing should be
interpreted as CPE that would maintain current knowledge of accounting and auditing standards for engagements that fall within the scope of peer review as described in the AICPA Standards for Performing and Reporting on Peer Reviews (PRP section 3100.04).

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

Interpretation No. 5—Independence, Integrity, and Objectivity

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

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

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

.18 Interpretation: Yes.

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

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

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

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

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

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

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

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

a. The frequency and extent of the pre-issuance review(s) is such that Firm A is an integral part of Firm B’s accounting or auditing practice or;
b. The pre-issuance review(s) was performed on an engagement within the current peer review year.

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

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

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

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

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

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

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

.34 Interpretation: Yes.

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

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

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

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

.39 Question: A group of firms (whether or not it uses a common name) places an advertisement in a trade journal. The advertisement indicates the number and geographical location of the member firms, and states that its members provide professional accounting and auditing services to over 2500 industry clients nationwide and that
each of the member firms passed its most recent peer review. A toll-free telephone number or Internet site is provided for contact. Can one firm in the group perform the peer review of another member firm in the same group?

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

.41 Question: What would constitute “objective and quantifiable” with respect to representations made in advertisements by a group of CPA firms, such as in brochures, pamphlets, websites, etc.?

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

.43 Question: Certain members of an association (i.e., parent association) may form a partnership or sub-association, which is a grouping of association member firms for the purpose of joint marketing of products or services. Can members of the sub-association perform peer reviews on firms of the parent association that are not involved in the activities of the sub-association?

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

- The parent association has a direct or material indirect financial interest in the sub-association.
- The sub-association has the same or a similar name of the parent association.
- The parent association and the sub-association share and use the same facilities, such as: offices, telephone numbers, employees, letterhead, and marketing materials.

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

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

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

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

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

Interpretation No. 6—Individual Enrollment in the AICPA Peer Review Program

.51 Question: The membership of the AICPA has amended its bylaws to require individual CPAs to enroll (not the firm) in an Institute-approved practice-monitoring program if they perform compilation services in firms or organizations not eligible to enroll in such a program. To reflect this amendment, Paragraph 2 of the Standards (PRP section 3100.02) now refers to “firms and individuals in the AICPA peer review program”. What is meant by “firms or organizations not eligible to enroll”, and can any AICPA member enroll in the AICPA peer review program as an individual?

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

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

.54 Interpretation: As an alternative to rewriting all of the Standards 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 AICPA peer review program there must be a CPA who has ultimate responsibility for any financial statement compilation services and non-CPA owners cannot assume ultimate responsibility for any such services. In addition, any compilation report must be signed individually by a CPA, and may not be signed in the name of the firm or organization.

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

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

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

.59 Question: As discussed in paragraph 98 of the Standards (PRP section 3100.98), can a hearing panel decide to terminate an individual’s enrollment in the AICPA peer review program?

.60 Interpretation: Yes. The due process related to hearings and appeals to the AICPA Joint Trial Board for individuals enrolled in the AICPA peer review program would parallel the process for enrolled firms, including publication of termination in such form and manner as the AICPA Council may prescribe. If a hearing panel decides to terminate an individual’s enrollment in the AICPA peer review program, that individual can appeal to the AICPA Joint Trial Board. When the fact that an individual’s enrollment has been terminated is published, the name of the firm or organization that was not eligible to enroll in an Institute-approved practice-monitoring program, with which the individual was practicing, is not published.

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

.61 Question: The Statement on Standards for Accounting and Review Services (SSARS) No. 1 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 4 of the Standards (PRP section 3100.04), would not be required to enroll in an Institute-approved practice-monitoring program. Would the compilations for management’s use only be subject to peer review when the firm is already enrolled in the peer review program because, for example, it performs services and issues reports on other engagements that are within the scope of the AICPA’s practice-monitoring standards?
.62 Interpretation: Yes. For firms enrolled in the AICPA peer review program, the compilations for management’s use only as described in SSARS No. 8 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.

.63 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?

.64 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 SSARS 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.

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

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

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

.68 Interpretation: SSARS No. 8 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.

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

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

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

.72 Interpretation: No.
Interpretation No. 8—Defining the Acceptance and Completion Dates on a Peer Review

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

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

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

.76 Interpretation: In either of the situations described in paragraphs .74 or .75, 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.

Interpretation No. 9—Significant Issues, Matters, and Comments on a Report Review

.77 Question: Paragraphs 87 and 94 of the Standards (PRP section 3100.87 and .94) and the acknowledgement sentence in the report issued on a report review (Appendix L [PRP section 3100.119]) refers to "significant matters," "significant issues," and "significant comments." What are some types of matters, issues and comments that should be deemed as significant for purposes of a report review?

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

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

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

AICPA Peer Review Program Manual
b. Failure to include a statement of cash flows in a GAAP prepared statement without modifying the accountant’s report.

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

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

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

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

1. A compilation has been performed in accordance with SSARS issued by the AICPA.

2. A compilation is limited to presenting in the form of financial statement information that is the representation of management (owners).

3. The financial statements have not been audited or reviewed and accordingly, the accountant does not express an opinion or any other form of assurance on them.

4. The paragraph representing that management has elected to omit substantially all of the required disclosures required by GAAP or OCBOA.

5. Any of the periods covered by the financial statements, and it cannot be determined from reading the financial statements.

6. Lack of independence when appropriate to do so.

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

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

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

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

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

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

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

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

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

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

f. Other minor report-dating departures.

g. Repeat peer review findings identified by the reviewer on matters not considered significant where the recommendation is different or more comprehensive than on the prior peer review.
**Interpretation No. 10—Peer Review Material Retention Policies**

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

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

.84 Administering entities should retain the following materials until the firm’s subsequent peer review has been completed:
   a. Peer review report
   b. Letter of comments and the firm’s response thereto, if applicable
   c. Letter notifying the firm that its peer review has been accepted
   d. Letter signed by the firm indicating that the peer review documents have been accepted with the understanding that the firm agrees to take certain actions, if applicable
   e. Letter notifying the firm that certain required actions have been completed, if applicable
   f. Settlement agreements and letter of required corrective actions received by the administering entity from the AICPA Professional Ethics Division related to individual members performance on accounting, auditing or attestation engagements

.85 Administering entities may also retain the following administrative materials until the firm’s subsequent peer review has been completed:
   a. Engagement letters
   b. Scheduling information
   c. Review team appointment acceptance letters
   d. Due date extension and year-end change requests and approvals

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

**Interpretation No. 11—Resignations From and Reenrollment to the AICPA Peer Review Program**

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

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

.89 Interpretation: A firm will be allowed to resign during the course of a peer review when the firm submits a letter waiving its right to a hearing and agrees to allow the AICPA to publish, in such form 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.

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

Interpretation No. 12—Other Enrollment Requirements

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

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

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PRP Section 3300

Guidance for Writing Peer Review Reports

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General Guidelines for System Review Reports

.01 A review team may issue one of the following types of reports:
   a. An unmodified report.
   b. A modified report.
   c. An adverse report.

.02 The report should contain—
   a. An indication of the scope of the review, including any limitations thereon.
   b. An indication that the review was performed in accordance with the standards established by the
      AICPA Peer Review Board.
   c. A description of the general characteristics of a system of quality control for an accounting and
      auditing practice.
   d. A reference to the letter of comments, if the report was modified or adverse.
   e. An opinion on whether the quality control system for the accounting and auditing practice of the
      reviewed firm has been designed in accordance with the quality control standards for an accounting
      and auditing practice established by the AICPA, and whether it was complied with for the year
      reviewed, to provide the firm with reasonable assurance of conforming with professional standards.
   f. A description of the reason(s) for any modification of the opinion.

.03 The report on a firm-on-firm review should be issued on the reviewing firm’s letterhead and signed
   in the reviewing firm’s name. All other reports should be issued on the letterhead of the entity that appointed
   or formed the review team and should be signed by the team captain on behalf of the review team (without
   reference to the team captain’s firm).

.04 The report should be addressed to the partners (or other appropriate terminology) of the reviewed
   firm and should be dated as of the date of the exit conference.

.05 The report should use plurals such as “we have reviewed”—even if the review team consists of only
   one person. The singular—“I have reviewed”—is appropriate only when the reviewed firm has engaged
   another firm to perform its review and the reviewing firm is a sole practitioner.

.06 Refer to PRP section 3300.25 for an illustrative unmodified report on a system review.

.07 If a firm performing accounting and review services (but no services under the Statements on
   Auditing Standards or examinations of prospective financial statements under the Statements on Standards
   for Attestation Engagements) elects to have a system review, the report should be appropriately tailored to
   reflect this fact. Refer to PRP section 3300.25 for an illustrative unmodified report on a system review of a
   firm that performs only accounting and review services and certain engagements under Statements on
   Standards for Attestation Engagements.

Guidelines for Writing Modifying Paragraphs

.08 In deciding on the type of opinion to be issued, a review team should consider the evidence it has
   obtained and form the following overall conclusions with respect to the year being reviewed:
   a. Whether the policies and procedures that constitute the reviewed firm’s system of quality control
      for its accounting and auditing practice have been designed in accordance with the quality control

PRP §3300.01
standards for an accounting and auditing practice established by the AICPA to the extent required
to provide the firm with reasonable assurance of conforming with professional standards.

b. Whether personnel of the reviewed firm complied with such policies and procedures in order
to provide the firm with reasonable assurance of conforming with professional standards.

Report Modified for Design Deficiencies

.09 A design deficiency exists when the reviewed firm’s quality control policies and procedures, even if
fully complied with, are not designed in accordance with the quality control standards for an accounting and
auditing practice. Deficiencies in the design of a system of quality control would be significant, and a
modified report should be issued, if the design of the system created a condition in which the firm did not
have reasonable assurance of conforming with professional standards in its accounting and auditing practice
during the year being reviewed. However, in the absence of deficiencies in the engagements reviewed, the
reviewer ordinarily would not reach that conclusion and would conclude that the matter should be handled
in the letter of comments.

.10 The reason for the modification should be discussed in a separate paragraph after the standard first
three paragraphs. The modifying paragraph should contain—

a. A reference to the letter of comments, such as: “This matter is discussed in more detail in our letter
of comments dated . . .”

b. A description of the deficiency in the design of the firm’s policies and procedures which
constitute its system of quality control. (The modifying paragraph should not discuss enga-
gement deficiencies.)

.11 The first sentence of the opinion paragraph of the standard report should be revised as follows: “In
our opinion, except for the deficiency(ies) described in the preceding paragraph, the system of quality
control . . .”

.12 Refer to PRP section 3300.26 for an illustrative report modified for an engagement performance
design deficiency on a system review.

Report Modified for Noncompliance With Quality Control Policies
and Procedures

.13 In assessing whether the degree of compliance was adequate to provide the reviewed firm with
reasonable assurance of conforming with professional standards, the review team should consider the nature,
causes, pattern and pervasiveness of the instances of noncompliance noted. 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. The review team’s task in such circumstances is to try to determine the cause of the
failure. If a review team concludes the nature, causes, pattern, pervasiveness, or implications of instances of
noncompliance are of such significance—individually or in the aggregate—that the reviewed firm’s degree
of compliance with its prescribed quality control policies and procedures did not provide it with reasonable
assurance of conforming with professional standards, a modified report should be issued.

.14 The reason for the modification should be discussed in a separate paragraph after the standard first
three paragraphs. The modifying paragraph should contain—

a. A reference to the letter of comments, such as: “This matter is discussed in more detail in our letter
of comments dated . . .”
b. A description of the quality control policies and procedures that were not followed by professional staff. (The modifying paragraph should not discuss engagement deficiencies.)

.15 The first sentence of the opinion paragraph of the standard report should be revised as follows: "In our opinion, except for the deficiency(ies) described in the preceding paragraph, the system of quality control . . ."

.16 Refer to PRP section 3300.27 for an illustrative report modified for noncompliance with quality control policies and procedures for engagement performance on a system review.

Adverse Report

.17 The review team should evaluate whether the reviewed firm's system of quality control has been designed in accordance with the quality control standards for an accounting and auditing practice established by the AICPA, was being complied with, and provided the firm with reasonable assurance of conforming with professional standards. If the review team finds that there are significant deficiencies in the design of a reviewed firm's system of quality control or pervasive instances of noncompliance with the reviewed firm's system of quality control as a whole, resulting in several material failures to adhere to professional standards on engagements, an adverse report may be appropriate.

.18 The reasons for an adverse report should be discussed in separate paragraphs after the first three standard paragraphs. The paragraph should contain—

a. A reference to the letter of comments, such as: "These matters are discussed in more detail in our letter of comments dated . . ."

b. A description of the nature and extent of the deficiencies in the reviewed firm's system of quality control and whether the deficiencies were caused by an inappropriately designed quality control system or noncompliance with the quality control system by professional staff.

c. A description of the engagement deficiencies, such as: "Our review disclosed several failures to adhere to professional standards in reporting on material departures from generally accepted accounting principles, in applying other generally accepted auditing standards, and in conforming with the standards for accounting and review services."

.19 The opinion paragraph of the standard report should be revised as follows: "In our opinion, because of the deficiencies described in the preceding paragraph, the system of quality control for the accounting and auditing practice of Jones, Smith & Company in effect for the year ended June 30, 20__, has not been designed in accordance with the quality control standards for an accounting and auditing practice established by the AICPA, was not being complied with for the year then ended, and did not provide the firm with reasonable assurance of conforming with professional standards in the conduct of that practice."

.20 Refer to PRP section 3300.28 for an illustrative adverse report on a system review.

Scope Limitations

.21 Situations may occur where the team captain cannot report on the firm's system of quality control because the reviewed firm does not permit certain engagements to be reviewed. This situation may not allow the team captain to review a sufficient cross-section of engagements or high-risk engagements needed to meet the requirements set by the AICPA Standards for Performing and Reporting on Peer Reviews. This would be considered a scope limitation. Examples of some reasons why a firm would not permit working papers for certain engagements to be reviewed include the following:

a. The financial statements of an engagement selected for review are the subject of litigation or investigation.
b. The client will not permit the working papers for its engagement to be reviewed.

c. During the year under review, a portion of the firm was divested, and the review team is unable to access certain engagements issued before the divestiture.

.22 When this situation occurs, the team captain should evaluate the firm’s reasons for excluding certain engagements. If the reasons are valid, the team captain should then consider the number, size and complexity of the excluded engagements and should review other engagements in a similar area of practice as well as other work of the supervisory personnel who participated in the excluded engagements. If the review team is precluded from applying one or more review procedures considered necessary in the circumstances and the review team cannot accomplish the objectives of those procedures by applying alternate procedures, a modified report should be issued. A team captain who is considering modifying a report for a scope limitation should consult with the state CPA society administering the review.

Illustrative System Review Reports

.23 The following paragraphs contain the standard and other illustrative reports for system reviews. The standard report should be appropriately tailored to fit the circumstances. Following each illustrative report is a critique of “key points” that the reviewer should focus on when preparing a report.
Illustrative System Review Reports

.24 Unmodified Report on a System Review

[See paragraph .03 for information on letterhead and appropriate signature]

August 3, 20__

To the Partners [or other appropriate terminology]
AB & Company

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

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

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

In our opinion, the system of quality control for the accounting and auditing practice of AB & Company in effect for the year ended June 30, 20__, 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.

YZ & Company
[for review by a firm]

or

John Smith
Team Captain
[for review by an association sponsored or committee appointed review team]

PRP §3300.24

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Key Points:

- This is the standard unmodified report on a system review of a firm that performs both accounting and auditing engagements. If the firm did not perform any accounting (or auditing) engagements during the year under review, the report should be tailored to indicate this. See PRP section 3300.25 for a tailored report.

- Ordinarily, the review should be conducted within three to five months following the end of the year to be reviewed. (The review year does not have to be the same as the firm's fiscal year.)

[See paragraph .03 for information on letterhead and appropriate signature]

To the Partners [or other appropriate terminology]
JW & Co.

We have reviewed the system of quality control for the accounting practice of JW & Co. (the firm) in effect for the year ended June 30, 20___. (JW & Co. has represented to us that the firm performed no services under the Statements on Auditing Standards or examinations of prospective financial statements under the Statements on Standards for Attestation Engagements during the year under review). A system of quality control encompasses the firm's organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of conforming with professional standards. The elements of quality control are described in the Statements on Quality Control Standards issued by the American Institute of Certified Public Accountants (AICPA). The design of the system and compliance with it are the responsibility of the firm. Our responsibility is to express an opinion on the design of the system, and the firm's compliance with the system based on our review.

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

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

In our opinion, the system of quality control for the accounting practice of JW & Co. in effect for the year ended June 30, 20___. has been designed to meet the requirements of the quality control standards for an accounting 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.

DR & Company

or

John Doe
Team Captain

September 30, 20__
Key Points:

- The reviewed firm performed no services under the Statements on Auditing Standards nor examinations of prospective financial statements under the Statements on Standards for Attestation Engagements.

- If the firm had a system of quality control for performing audits and the design of which was reviewed by the engagement team, then the first sentence of the first paragraph should be tailored to appropriately reflect that the “system of quality control for the accounting and auditing practice” was reviewed. However, because compliance with the system of quality control for the audit practice could not be tested, no opinion would be expressed on the audit practice in the fourth paragraph.

- In addition, another sentence has been added parenthetically indicating “the firm performed no services under the Statements on Auditing Standards or examinations of prospective financial statements under the Statements on Standards for Attestation Engagements during the year under review.”

- The second sentence in the second paragraph also refers to “the accounting practice.”

- If the firm had an auditing practice but no accounting practice, the report should be similarly tailored to reflect that fact.
.26 Modified Report for an Engagement Performance Design Deficiency on a System Review

[See paragraph .03 for information on letterhead and appropriate signature]

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

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

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

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

Our review disclosed that the firm's quality control policies and procedures for engagement performance regarding audit planning were not appropriately designed. This matter is discussed in more detail in our letter of comments dated December 3, 20___.

In our opinion, except for the deficiency described in the preceding paragraph, the system of quality control for the accounting and auditing practice of PG & Associates in effect for the year ended June 30, 20___. 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.

December 3, 20__

SR & Company

or

Ashley Brown
Team Captain

for review by
a firm

for review by
an association
sponsored or
committee
appointed
review team

PRP §3300.26

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Key Points:

- This report is modified for a design deficiency in the reviewed firm's quality control policies and procedures for engagement performance. Therefore, the fourth paragraph of the report includes a description of the reasons for the modification without referring to the underlying engagement deficiencies.

- The fourth paragraph of the report makes reference to the letter of comments.

- The fourth paragraph of the report specifies the quality control element(s) for which the report is qualified.

- The fifth paragraph of the report includes the reviewer's opinion on the firm's system of quality control. The modification is indicated by the inclusion of the phrase "except for the deficiency described in the preceding paragraph."
.27  Modified Report for Noncompliance With Quality Control Policies and Procedures for Engagement Performance on a System Review

[See paragraph .03 for information on letterhead and appropriate signature]

December 3, 20_

To the Partners (or other appropriate terminology)
SC & Company

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

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

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

Our review disclosed that the firm’s quality control policies and procedures for engagement performance regarding completion of financial statement reporting and disclosure checklists were not followed. This matter is discussed in more detail in our letter of comments dated December 3, 20__.

In our opinion, except for the deficiency described in the preceding paragraph, the system of quality control for the accounting and auditing practice of SC & Company in effect for the year ended June 30, 20__, 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.

AA & Company

for review by
a firm

or

Jane White
Team Captain

for review by
an association
sponsored or
commited
appointed
review team
Key Points:

- This report is modified for noncompliance with the reviewed firm's quality control policies and procedures for engagement performance. Therefore, the fourth paragraph of the report includes a description of the reasons for the modification without referring to the underlying engagement deficiencies.

- The fourth paragraph of the report makes reference to the letter of comments.

- The fourth paragraph of the report specifies the quality control element(s) for which the report is modified.

- The fifth paragraph of the report includes the reviewer's opinion on the firm's system of quality control. The modification is indicated by the inclusion of the phrase "except for the deficiency described in the preceding paragraph."
.28 Adverse Report on a System Review

[See paragraph .03 for information on letterhead and appropriate signature]

August 31, 20__

To the Partners (or other appropriate terminology)

NH & Company

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

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

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

Our review disclosed several failures to adhere to professional standards in reporting on material departures from generally accepted accounting principles, in applying other generally accepted auditing standards, and in conforming with the standards for accounting and review services. In that connection, our review disclosed that the firm’s quality control policies and procedures were not appropriately designed because they do not require the preparation of a written audit program, which is required by generally accepted auditing standards. In addition, our review disclosed failures to complete financial statement reporting and disclosure checklists required by firm policy and failures to review engagement working papers in the manner required by firm policy. These matters are discussed in more detail in our letter of comments dated August 31, 20__.

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

ES & Company

[for review by a firm]

or

Mary Smith
Team Captain

[for review by an association sponsored or committee appointed review team]
Key Points:

- This report is adverse because of significant deficiencies in the design of the reviewed firm’s system of quality control and its pervasive noncompliance with that system as a whole. Therefore, the fourth paragraph of the report includes a description of the reasons for the adverse report, including a reference to the underlying engagement deficiencies.

- The fourth paragraph of the report makes reference to the letter of comments.

- The fifth paragraph of the report includes the reviewer’s opinion on the firm’s system of quality control. The adverse report is indicated by the inclusion of the phrase “because of the significance of the matters discussed in the preceding paragraph.”
General Guidelines for Engagement Review Reports

.29 A reviewer may issue one of the following types of reports:

a. An unmodified report.

b. A modified report.

c. An adverse report.

.30 The report should contain—

a. An indication that the review was performed in accordance with the standards established by the AICPA Peer Review Board.

b. An indication that the reviewed firm has represented that it performed no services under the Statements on Auditing Standards or examinations of prospective financial statements under the Statements on Standards for Attestation Engagements during the year under review.

c. A description of the limited scope of the review and a disclaimer of an opinion or any form of assurance about the firm's system of quality control for its accounting practice.

d. A reference to the letter of comments, if the report was modified or adverse.

e. A conclusion whether anything came to the reviewer's attention that caused the reviewer to believe the reports submitted for review by the firm did not conform with professional standards in all material respects and/or that the documentation on those engagements did not conform with the applicable requirements of SSARS and the SSAEs in all material respects.

f. A description of the reason(s) for any modification of the conclusion.

.31 The report on a firm-on-firm review should be issued on the reviewing firm's letterhead and signed in the reviewing firm's name. All other reports should be issued on the letterhead of the entity that appointed or formed the review team and should be signed by the reviewer (without reference to the reviewer's firm).

.32 The report should be addressed to the partners (or other appropriate terminology) of the reviewed firm and should be dated as of the date of the completion of the performance of the review.

.33 The report should normally use plurals such as "we have reviewed." The singular—"I have reviewed"—is appropriate only when the reviewed firm has engaged another firm to perform its review and the reviewing firm is a sole practitioner.

.34 Refer to PRP section 3300.44-.45 for illustrative unmodified reports on engagement reviews.

Report Modified for Significant Departures From Professional Standards

.35 When the review discloses significant departures from professional standards in one or more of the engagements reviewed, those departures should be clearly described in the review report as exceptions to the limited assurance expressed in the report.

.36 Refer to PRP section 3100.114, AICPA Standards for Performing and Reporting on Peer Reviews, Appendix G, for examples of significant departures from professional standards.

.37 The reason for the modification should be discussed in a separate paragraph after the first two standard paragraphs. The modifying paragraph should contain—
a. A reference to the letter of comments such as: "These matters are discussed in more detail in our letter of comments dated . . . ."

b. A description of the deficiencies that are considered to be significant departures from professional standards.

.38 The first sentence of the last paragraph of the standard report should be revised as follows: "In connection with our engagement review, with the exception of the matter(s) described in the preceding paragraph, nothing came to our attention . . . ."

.39 Refer to PRP section 3300.46-.47 for illustrative reports modified for significant departures from professional standards on engagement reviews.

**Adverse Report**

.40 In reaching a decision on whether the conclusion in the report should be modified or adverse when there are significant departures from professional standards, the reviewer should consider the pattern and pervasiveness of significant departures from professional standards disclosed by the review.

.41 The reasons for an adverse report should be discussed in a separate paragraph after the first two standard paragraphs. The paragraph should contain—

a. A reference to the letter of comments and statement that there were several deficiencies found in the review, such as: "Our review disclosed several failures to adhere to professional standards in reporting on material departures from generally accepted accounting principles and in conforming with standards for accounting and review services. Specifically, the firm did not . . . ." These matters are discussed in more detail in our letter of comments dated . . .

b. A description of the deficiencies that are considered to be significant departures from professional standards.

.42 The last paragraph of the standard report should be revised as follows: "Because of the deficiencies described in the preceding paragraph, we do not believe that the reports submitted for review by ABC Company for the year ended June 30, 20__ conform with the requirements of professional standards in all material respects or that the documentation on those engagements conform with the applicable requirements of SSARS and the SSAEs in all material respects."

.43 Refer to PRP section 3300.48 for an illustrative adverse report on an engagement review.
Illustrative Engagement Review Reports

.44 Unmodified Report on an Engagement Review

[See paragraph .31 for information on letterhead and appropriate signature]

November 15, 20__

To the Partners (or other appropriate terminology)
LLM & Company

We have performed a peer review of selected engagements (engagement review) of the accounting practice of LLM & Company (the firm) for the year ended July 31, 20__, in accordance with standards established by the Peer Review Board of the American Institute of Certified Public Accountants. LLM & Company has represented to us that the firm performed no services under the Statements on Auditing Standards or examinations of prospective financial statements under the Statements on Standards for Attestation Engagements (SSAEs) during the year ended July 31, 20__.

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

In connection with our engagement review, nothing came to our attention that caused us to believe that the reports submitted for review by LLM & Company for the year ended July 31, 20__, did not conform with the requirements of professional standards in all material respects (or that the documentation on those engagements did not conform with the applicable requirements of SSARS and the SSAEs in all material respects.)* / (and there was no documentation required for the engagements submitted for review.)**

```plaintext
YZ & Company

[for review by a firm]

or

John Smith
Reviewer

[for review by an association sponsored or committee appointed review team]
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* Language included when firm submits engagements with documentation requirements.
** Language included when firm has no engagements with documentation requirements.
Key Points:

- This is the standard unmodified report on an engagement review.
- The individual performing the review is referred to as the “reviewer” and not the “team captain.”
- When the firm submits engagements for review with documentation requirements, the relevant language to be included in the third paragraph of an unmodified report on an engagement review would encompass reporting on the following: review engagements performed under Statement on Standards for Accounting and Review Services (SSARS), compilation engagements performed under SSARS No. 8 where an engagement letter was issued instead of a report, and certain engagements performed under the Statements on Standards for Attestation Engagements (SSAEs).
- When the firm submits engagements for review that have no documentation requirements, the relevant language to be included in the third paragraph of an unmodified report on an engagement review would encompass reporting on compilation engagements performed under SSARS, except those that are performed under SSARS No. 8 where an engagement letter was issued instead of a report.
Illustrative Engagement Review Reports

4.5 Unmodified Report on an Engagement Review of a Firm That Only Performs Compilations That Omit Substantially all Disclosures

[See paragraph .31 for information on letterhead and appropriate signature]

November 13, 20__

To the Partners (or other appropriate terminology)
STV & Company

We have performed a peer review of selected engagements (engagement review) of the accounting practice of STV & Company (the firm) for the year ended July 31, 20__, in accordance with standards established by the Peer Review Board of the American Institute of Certified Public Accountants. STV & Company has represented to us that the firm performed no services under the Statements on Auditing Standards, the Statements on Standards for Attestation Engagements (SSAEs), or review or compilation engagements with full or selected disclosures under the Statements on Standards for Accounting and Review Services (SSARS) during the year ended July 31, 20__.

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

In connection with our engagement review, nothing came to our attention that caused us to believe that the reports submitted for review by STV & Company for the year ended July 31, 20__, 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.

YZ & Company

for review by a firm

or

John Smith
Reviewer

for review by an association sponsored or committee appointed review team
Key Points:

- This is the standard unmodified report on an engagement review, which is tailored for a firm that only performs compilation engagements that omit substantially all disclosures.

- The individual performing the review is referred to as the “reviewer” and not the “team captain.”

- As indicated in Interpretation No. 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,” (PRP section 3200.64) the required documentation as detailed in the SSARS No. 8 should be treated as though they were “reports” (as reports are discussed and referred to in the Standards).
.46 Modified Report for Significant GAAP Departures From Professional Standards on an Engagement Review

[See paragraph .31 for information on letterhead and appropriate signature]

To the Partners (or other appropriate terminology)

BDY & Associates

September 2, 20__

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

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

Our review disclosed that the firm’s review report on the financial statements of one of the engagements submitted for review did not disclose the failure to capitalize a financing lease, as required by generally accepted accounting principles. Also, significant financial statement disclosure deficiencies concerning related-party transactions were noted on the engagement. These matters are discussed in more detail in our letter of comments dated September 2, 20__.

In connection with our engagement review, with the exception of the matter described in the preceding paragraph, nothing came to our attention that caused us to believe that the reports submitted for review by BDY & Associates for the year ended June 30, 20__, did not conform with the requirements of professional standards in all material respects (or that the documentation on those engagements did not conform with the applicable requirements of SSARS and the SSAEs in all material respects)1/(and there was no documentation required for the engagements submitted for review)."

John Smith

[for review by a firm]

or

John Smith

Reviewer

[for review by an association sponsored or committee appointed review team]

1 Language included when firm submits engagements with documentation requirements.

2 Language included when firm has no engagements with documentation requirements.
Key Points:

• This report is modified for significant departures from professional standards as related to noncompliance with generally accepted accounting principles (GAAP). Therefore, the third paragraph of the report includes a description of the deficiencies considered to be significant departures from professional standards.

• The third paragraph of the report makes reference to the letter of comments.

• The fourth paragraph of the report includes the reviewer's conclusion on the reports submitted for review. The modification is indicated by the inclusion of the phrase "with the exception of the matter(s) described in the preceding paragraph."

• When the firm submits engagements for review with documentation requirements, the relevant language to be included in the fourth paragraph of a modified report on an engagement review would encompass reporting on the following: review engagements performed under Statement on Standards for Accounting and Review Services (SSARS), compilation engagements performed under SSARS No. 8 where an engagement letter was issued instead of a report, and certain engagements performed under the Statements on Standards for Attestation Engagements (SSAEs).

• When the firm submits engagements for review that have no documentation requirements, the relevant language to be included in the fourth paragraph of a modified report would encompass reporting on compilation engagements performed under SSARS, except those that are performed under SSARS No. 8 where an engagement letter was issued instead of a report.
.47 Modified Report for Significant SSARS Departures From Professional Standards on an Engagement Review

[See paragraph .31 for information on letterhead and appropriate signature]

September 2, 20__

To the Partners (or other appropriate terminology)
PQR & Associates

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

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

Our review disclosed 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. These matters are discussed in more detail in our letter of comments dated September 2, 20__.

In connection with our engagement review, with the exception of the matters described in the preceding paragraph, nothing came to our attention that caused us to believe that the reports submitted for review by PQR & Associates for the year ended June 30, 20__, did not conform with the requirements of professional standards in all material respects (or that the documentation on those engagements did not conform with the applicable requirements of SSARS and the SSAEs in all material respects)¹/(and there was no documentation required for the engagements submitted for review).”

John Smith

or

John Smith
Reviewer

¹ Language included when firm submits engagements with documentation requirements.

² Language included when firm has no engagements with documentation requirements.
Key Points:

- This report is modified for significant departures from professional standards as related to noncompliance with Standards for Accounting and Review Services (SSARS). Therefore, the third paragraph of the report includes a description of the deficiencies considered to be significant departures from professional standards.

- The third paragraph of the report makes reference to the letter of comments.

- The fourth paragraph of the report includes the reviewer's conclusion on the reports submitted for review. The modification is indicated by the inclusion of the phrase "with the exception of the matter(s) described in the preceding paragraph."

- When the firm submits engagements for review with documentation requirements, the relevant language to be included in the fourth paragraph of a modified report on an engagement review would encompass reporting on the following: review engagements performed under Statement on Standards for Accounting and Review Services (SSARS), compilation engagements performed under SSARS No. 8 where an engagement letter was issued instead of a report, and certain engagements performed under the Statements on Standards for Attestation Engagements (SSAEs).

- When the firm submits engagements for review that have no documentation requirements, the relevant language to be included in the fourth paragraph of a modified report would encompass reporting on compilation engagements performed under SSARS, except those that are performed under SSARS No. 8 where an engagement letter was issued instead of a report.
.48 Adverse Report on an Engagement Review

[See paragraph .31 for information on letterhead and appropriate signature]

December 15, 20__

To the Partners (or other appropriate terminology)
ZAP & Company

We have performed a peer review of selected engagements (engagement review) of the accounting practice of ZAP & Company (the firm) for the year ended October 31, 20__, in accordance with the standards established by the Peer Review Board of the American Institute of Certified Public Accountants. ZAP & Company has represented to us that the firm performed no services under the Statements on Auditing Standards or examinations of prospective financial statements under the Statements on Standards for Attestation Engagements (SSAEs) during the year ended October 31, 20__.

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

Our review disclosed several failures to adhere to professional standards in reporting on material departures from generally accepted accounting principles 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 generally accepted accounting principles in accounting for leases, in accounting for revenue from construction contracts, and in disclosures made in the financial statements or the notes thereto concerning various matters important to an understanding of those statements. In addition, the firm did not obtain management representation letters on review engagements. These matters are discussed in more detail in our letter of comments dated December 15, 20__.

Because of the deficiencies described in the preceding paragraph, we do not believe that the reports submitted for review by Zap & Company for the year ended October 31, 20__, conform with the requirements of professional standards in all material respects (or that the documentation on those engagements conform with the applicable requirements of SSARS and the SSAEs in all material respects)¹/(and there was no documentation required for the engagements submitted for review)."¹

YZ & Company

for review by a firm

or

John Smith
Reviewer

for review by an association sponsored or committee appointed review team

¹ Language included when firm submits engagements with documentation requirements.

² Language included when firm has no engagements with documentation requirements.
Key Points:

- This report is adverse for significant departures from professional standards. Therefore, the third paragraph of the report explains the nature of the deficiencies noted on the review and emphasizes that the disclosure deficiencies concerned "matters important to an understanding of those statements" reviewed.

- The third paragraph of the report makes reference to the letter of comments.

- The fourth paragraph of the report includes the reviewer’s conclusion on the reports submitted for review by the firm. The adverse report is indicated by the inclusion of the phrase "because of the significance of the deficiencies described in the preceding paragraph".

- When the firm submits engagements for review with documentation requirements, the relevant language to be included in the fourth paragraph of an adverse report on an engagement review would encompass reporting on the following: review engagements performed under Statement on Standards for Accounting and Review Services (SSARS), compilation engagements performed under SSARS No. 8 where an engagement letter was issued instead of a report, and certain engagements performed under the Statements on Standards for Attestation Engagements (SSAEs).

- When the firm submits engagements for review that have no documentation requirements, the relevant language to be included in the fourth paragraph of an adverse report would encompass reporting on compilation engagements performed under SSARS, except those that are performed under SSARS No. 8 where an engagement letter was issued instead of a report.

- The third and fourth paragraphs of the adverse report should be modified accordingly in those cases where the significant matters that resulted in an adverse report were attributable to either one of the following: (1) material departures from generally accepted accounting principles (GAAP) and not from SSARS, or (2) material departures from SSARS and not from GAAP.
General Guidelines for Reports on Report Reviews

.49 A reviewer may issue one of the following types of reports:

a. Without comments and recommendations.

b. With comments and recommendations.

.50 The report should contain—

a. An indication that the review was performed in accordance with standards established by the Peer Review Board of the American Institute of Certified Public Accountants (AICPA).

b. A description of the limited scope of the review and a disclaimer of an opinion or any form of assurance about the firm’s system of quality control for its accounting practice.

c. A list of comments and recommendations, if any, that should be considered by the reviewed firm based on the review of the engagements. (There is no separate letter of comments and letter of response.)

d. An identification of any comments on the current review that were also noted on the firm’s previous review.

.51 The report on a firm-on-firm report review should be issued on the reviewing firm’s letterhead and signed in the reviewing firm’s name. All other reports should be issued on the letterhead of the entity that appointed the reviewer and should be signed by the reviewer (without reference to the reviewer’s firm).

.52 The report should be addressed to the partners (or other appropriate terminology) of the reviewed firm and should be dated as of the date of the completion of the review procedures.

.53 The report should normally use plurals such as “we have reviewed.” The singular—“I have reviewed”—is appropriate only when the reviewed firm has engaged another firm to perform its review and the reviewing firm is a sole practitioner.

.54 An authorized member of the firm should sign the report, whether or not there are comments, acknowledging that there are no disagreements on significant matters and the firm agrees to correct matters included as comments.

.55 Refer to PRP section 3300.56 for an illustrative report on a report review, and to PRP section 3300.57, Appendix A, “Checklist for Reviewing Drafts of Reports on Report Reviews.”
.56 Illustrative Report on a Report Review

[See paragraph .51 for information on letterhead and appropriate signature]

To the Partners (or other appropriate terminology)
TUV & Associates

We have performed a peer review of selected compilation engagements (report review) of the accounting practice of TUV & Associates (the firm) for the year ended June 30, 20__. 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. TUV & Associates 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, 20__.

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

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

or

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

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

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

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

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

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

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

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

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

4. Comment—We noted that computer-generated compiled financial statements prepared on a basis of accounting other than generally accepted accounting principles (GAAP) were properly reported on, but they used titles normally associated with a GAAP presentation. A similar comment was noted on the firm’s prior review.

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.

5. Comment—In one of the compilation engagements submitted for review, we noted that the accountant’s report was not modified to disclose the presentation of the accompanying financial statements 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 an attached footnote or in a note on the face of the financial statements. In these circumstances, Statement on Standards for Accounting and Review Services require disclosure 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.

6. Comment—On one of the engagements that we reviewed, we noted that the firm’s compilation report did not disclose 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.

7. 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> <cash basis of accounting> <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.
8. **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 both 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.

9. **Comment**—We noted that the accountant's reports did not refer to all of the periods covered by the compiled financial statements that were being reported upon.

**Recommendation**—We recommend that accountant’s reports be carefully reviewed prior to their being issued in order to ensure that all the periods covered by the compiled financial statements are properly reported upon in those reports.

10. **Comment**—We noted that the accountant’s reports for compiled financial statements, prepared on the <cash basis> <income tax basis> of accounting and omitting substantially all disclosures, did indicate the basis of accounting, but did not include the companion disclosure 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.

**Recommendation**—The firm should review its standard accountant’s reports for engagements to compile financial statements prepared on an other comprehensive basis of accounting for which substantially all disclosures are omitted. The reports should then be modified, as necessary, to include the disclosure that the basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles.

[Smith & Jones, CPAs]
[Signature]

Authorized acknowledgement for the reviewed firm:

I acknowledge that there are no disagreements on significant matters (and that the firm agrees to correct matters included as comments by implementing the above recommendation(s)).

Signature: ___________________________  Title: ___________________________  Date: __________

---

* Phrase in parenthesis must be included when there are comments.
Key Points:

- The third paragraph of the report contains a list of comments (not findings) and recommendations based on whether the financial statements and the related accountant’s reports appear to conform with the requirements of professional standards in all material respects. The types of comments a peer reviewer would include in his or her report are not limited to those that would result in a modified report on an engagement review. However, the comments should be relevant and supportable in professional standards.

- The comments are designed to enable the reviewed firm to improve the overall quality of its compilation engagements that omit substantially all disclosures.

- The comments should be relevant and supportable by professional standards.

- The comments and recommendations should be reasonably detailed so that the reviewed firm can evaluate what appropriate actions should be taken.

- The recommendations should be specific as to the appropriate actions the reviewed firm should take in order to correct the reporting and/or financial statement presentation deficiencies as described in the comments.

- The reviewer should discuss with the firm, the matters for further consideration (MFCs), and the comments and the recommendations prior to preparing the written report. Therefore, the reviewer and the firm should discuss an appropriately tailored recommendation to be included in the report that the firm will agree to implement.

- The comments on the current review that were also noted on the prior review are identified as repeat comments.
### Checklist for Reviewing Drafts of Reports on Report Reviews

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<td>3.</td>
<td>Are the comments relevant and supportable by professional standards?</td>
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<td>4.</td>
<td>Have you avoided identifying, by name or otherwise, specific engagements, individuals, or offices?</td>
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<td>5.</td>
<td>Are comments and recommendations reasonably detailed so that the reviewed firm can evaluate what appropriate actions should be taken?</td>
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<tr>
<td>6.</td>
<td>Are recommendations specific as to the appropriate actions to be taken by the reviewed firm in order to correct the reporting and/or financial statement presentation deficiencies as described in the comments?</td>
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<td>7.</td>
<td>Are the comments and recommendations clearly understandable to someone not familiar with the specific engagement?</td>
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<td>11.</td>
<td>Are repeat comments clearly identified?</td>
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* All "no" answers should be resolved before the report is finalized.
PRP Section 3400

**Guidance for Writing a Letter of Comments on System Reviews**

Notice to Readers

This guide has been developed by the AICPA Peer Review Board to provide peer reviewers with additional guidance on preparing letters of comments on peer reviews. The examples included in this section are for illustrative purposes only. Actual letters of comments should be prepared based on the specific facts and circumstances.

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Introduction

.01 The criteria for including an item in the letter of comments on a system review is whether the item resulted in a condition 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.\(^1\) Because this is a very low threshold, most system reviews result in the issuance of a letter of comments.

Objectives

.02 The major objectives of the letter are to—

a. Report matters (including the matters, if any, that resulted in a modified or adverse report) 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, and to set forth recommendations regarding those matters.

b. Provide information about the effectiveness of the firm’s system of quality control.

c. Assist those responsible for oversight in determining if the planned actions the reviewed firm has proposed in its letter of response appears appropriate in the circumstances.

d. Provide the firm with recommendations to assist the firm in implementing policies and procedures to meet the requirements of the quality control standards for an accounting and auditing practice established by the AICPA.

General Guidelines

.03 The letter should be addressed, dated, and signed in the same manner as the report. It should include—

a. A reference to the report indicating, where applicable, if it was modified or adverse.

b. The reviewer’s findings and recommendations.

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

Matters to Be Included in the Letter of Comments

.04 The letter of comments should include comments, as described below, regarding the design of the reviewed firm’s system of quality control, or its compliance or documentation of its compliance with that system. In addition, if a modified or adverse peer review report is issued, the letter should include a section on the matters that resulted in the modification. This section would ordinarily include an elaboration of the findings discussed in the modifying paragraph of the report.

.05 To give appropriate consideration to the evidence obtained and to reach conclusions regarding the matters to be included in the letter of comments, 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 during the review must be evaluated qualitatively and not primarily on a quantitative basis. Reviewers should take the necessary time to investigate findings and understand the underlying cause of the finding from the perspective of the system of quality control.

\(^1\) "Remote" has the same meaning in this guide as in Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards No. 5, Accounting for Contingencies, in which “remote” is defined as “slight”.

AICPA Peer Review Program Manual
The review findings should be based on professional standards and not on personal preferences. Reviewers are occasionally surprised to find that some "generally accepted" professional standards are, in reality, only a preferred treatment by their firm.

If any of the matters to be included in the letter were included in the letter issued in connection with the firm's previous peer review, that fact ordinarily should be noted. The letter may also include comments concerning actions taken by the reviewed firm.

Reporting Considerations for System Reviews

Comments Regarding the Design of the Firm's System of Quality Control

A design deficiency exists when the reviewed firm's quality control policies and procedures, even if fully complied with, are not likely to accomplish an applicable quality control elements as a whole.

Deficiencies in the design of the reviewed firm's system of quality control should be included in the letter of comments if the design of the system resulted in a condition 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, even though there was reasonable assurance of conforming with professional standards.

When engagement deficiencies, particularly instances of nonconformity with professional standards, were attributable to such design deficiencies, the presence of the engagement deficiencies ordinarily should be noted in the comment along with the description of the design deficiency.

Noncompliance With the Firm's System of Quality Control

The best system of quality control can only be effective when the firm complies with that system. Although firms have good intentions for following their systems of quality control, other factors, such as lack of communication within the firm, lack of understanding of the system, and complacency, can cause compliance problems.

Instances of noncompliance with significant firm policies or procedures, either because of a lack of performance or a lack of adequate documentation of performance, should be included in the letter whenever the degree of such noncompliance created a condition in which there was more than a remote possibility that the firm would not conform with professional standards on accounting and auditing engagements, even though the degree of noncompliance was not such as to warrant a modified report.

Documentation deficiencies are deficiencies in which the reviewer has become convinced, through discussions with the members of the engagement team or other appropriate means, that the engagement team is knowledgeable about the matter under discussion and that the work in question was performed, but was not documented sufficiently in the working papers.

In assessing whether the degree of noncompliance created a condition in which there was more than a remote possibility that the firm would not conform with professional standards on accounting and auditing engagements, the review team should consider the nature, causes, pattern, and pervasiveness of the instances of noncompliance noted, and also the implications for the firm's system of quality control as a whole, not merely the importance in the specific circumstances in which the instances were observed. To do this, the review team should evaluate the instances of noncompliance, both individually and collectively, recognizing that adherence to certain policies or procedures is more critical to assuring conformity with professional standards than adherence to others. Accordingly, a higher degree of compliance should be expected for the more critical policies and procedures. However, noncompliance with quality control policies and procedures that are less critical to assuring conformity with professional standards may also be reportable in a letter of comments. For example, a higher degree of noncompliance with a personnel
management policy for hiring relative to the obtaining of background information might be more tolerable than noncompliance with an engagement performance policy which requires an independent owner to review the report and accompanying financial statements before issuance of the report.

.15 When engagement deficiencies—particularly instances of nonconformity with professional standards—were attributable to instances of noncompliance with significant firm policies or procedures described in the letter, that information ordinarily should be included in the description of the finding.

.16 When the nature and degree of noncompliance at one or more offices of a multi-office firm or other significant practice segments were of such significance that a condition was created in which there was more than a remote possibility that the office would not conform with professional standards on accounting and auditing engagements, the review team should consider whether the matter should be included in the letter of comments, even though the degree of compliance for the remainder of the firm did not create such condition with respect to the firm as a whole. In these instances, the identity of the office should not be revealed in the letter of comments.

Matters That Should Not Be Included in the Letter of Comments

.17 During its work, a review team may note matters that do not merit reporting in the letter of comments because such matters do not create a condition in which there is more than a remote possibility that the firm will not conform with professional standards on accounting and auditing engagements. However, such matters may be communicated to the firm at the exit conference. Examples of such matters are described in the following paragraphs.

Apparent Deficiencies in Design or Compliance Wholly or Partially Offset by Other Compensating Policies and Procedures

.18 If a firm’s system of quality control does not include a procedure that the review team considers significant (such as not using a financial statement disclosure or report review checklist) but it does include other compensating procedures (such as a second management-level pre-issuance review that is functioning effectively), the matter should not be included in the letter. The design deficiency is offset by other compensating procedures and no further action is required.

Recommendations Regarding the Firm’s Quality Control Document

.19 Reviewers may notice that a firm’s quality control document does not provide for all circumstances that may arise. For example, a firm may not have established engagement performance policies for consultation policies relative to specialized industries, because presently, it has no clients in any specialized industries. Such matters may be discussed with the reviewed firm; however, they should not be included in the letter of comments.

.20 Reviewers may find that a firm does not comply with certain policies and procedures that, in practice, are excessive or redundant and not required to assure conformity with professional standards on accounting and auditing engagements. Such findings should be discussed with the firm, but they should not be included in the letter of comments.

Isolated Occurrences

.21 Ordinarily, an isolated instance of noncompliance should not be included in the letter. However, the review team should evaluate the nature, significance, and cause of the isolated occurrence and its implications.

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2 For peer reviews performed in accordance with the standards established by the AICPA Peer Review Board such matters may be communicated in a written letter of suggestions. This letter should be prepared on the letterhead of the team captain’s firm since it is a private communication between the team captain and the reviewed firm only. A copy of this letter should not be included in the working papers.
for the firm’s system of quality control, as a whole. The review team also should consider the results of its evaluation in conjunction with its other instances of noncompliance findings to determine if the item does, in fact, represent an isolated occurrence. For example, a single disclosure deficiency, an instance of noncompliance with an engagement performance quality control procedure, and a single documentation deficiency may all appear to be isolated but, in fact, may have resulted from the same underlying cause. Such instances of noncompliance should be included in the letter of comments if they created a condition in which there was more than a remote possibility that the firm would not conform with professional standards on accounting and auditing engagements.

**Administrative Matters**

.22 Matters relating to poor firm administration or engagement inefficiencies ordinarily do not create a condition in which there is more than a remote possibility that the firm will not conform with professional standards on accounting and auditing engagements. Therefore, such matters should not be reported in a letter of comments.

**Points to Consider When Writing the Letter of Comments**

.23 The objectives of the letter of comments are more likely to be met when the letter is written in a clear, concise manner. The following points should be considered when writing a letter:

a. If a modified (adverse) report is issued, the letter should be divided into two sections: (1) Matters that resulted in a modified (adverse) report, and (2) Matters that did not result in a modified (adverse) report. However, if the report is not modified (adverse), do not include the phrase “matters that did not result in a modified (adverse) report.”

b. Use the format recommended in this section of “Findings” and “Recommendations.” Separate, clearly captioned paragraphs should be used to report the findings and related recommendations.

c. Include headings for each quality control element for which there is a comment.

d. Items included in the letter should have a “systems” orientation. That is to say, identify the underlying weakness in the system of quality control which caused a particular engagement deficiency to occur. The finding should not just describe the engagement deficiency.

e. Identify the likely causes of the deficiencies (for example, describe the deficiencies as either design deficiencies or compliance deficiencies [performance or documentation]).

f. Group findings caused by the same deficiency into a single comment. For example, if the review team notes various disclosure deficiencies caused by the failure to use a disclosure checklist or to perform other appropriate procedures, a single comment on the cause of all the disclosure deficiencies is preferable to numerous comments on individual deficiencies. The letter should not list each disclosure deficiency noted by the review team.

g. Do not group unrelated findings into one comment. For example, disclosure deficiencies should be separated from comments regarding insufficient documentation unless they relate to the same quality control deficiency.

h. Describe the findings completely, but avoid excessive or redundant detail in the letter of comments.

i. Use general terms to indicate frequency of occurrence. Terms such as “in some instances” or “frequently” are preferable to the specific number of instances.

j. Do not identify specific engagements, individuals, or offices by name or otherwise.

k. Do not include personal preferences in the letter when they relate to procedures (such as engagement letters or time budgets) that are not required by the firm’s system of quality control and are not essential to the reviewed firm’s conformity with professional standards on accounting and auditing engagements. Such matters may be communicated to the firm orally.
l. Avoid references to specific technical standards, where possible. In most instances, a general reference to "professional standards" will suffice. If a reference to a specific technical standard is necessary, always include a complete description of the topic to which it relates.

m. When a finding describes a performance deficiency where the firm may have departed from professional standards, include a sentence advising the reader whether additional actions are necessary on the engagement reviewed ("close the loop"). If corrective actions are necessary, a description of the actions taken or planned by the reviewed firm should be included. Ordinarily, the reviewer need not "close the loop" for documentation deficiencies.

n. Use general terms when referring to purchased practice aids, instead of the names of specific vendors.

o. If any of the matters to be included in the letter of comments were included in the letter issued in connection with the firm's previous peer review, this fact should be noted in describing the matter. In this regard, comments should not be written in such a general manner that they may be "automatically repeated" in the documents issued with the firm's next review.

p. Be careful not to overemphasize the use of standardized forms and checklists as a recommendation for improving the firm's system of quality control. Although forms and checklists may be helpful in many circumstances, their use will not cure all deficiencies. Think carefully about the cause of the deficiency and whether a different recommendation would provide a more effective cure.

q. Have a person in your firm unfamiliar with the findings on the review read the letter of comments before it is finalized. Ask the person whether he or she understands the findings and recommendations without asking any questions.

**General Guidelines for Describing the Review Team's Findings**

.24 In describing a deficiency in the design of the reviewed firm's system or instances of noncompliance, the findings ordinarily can be described in the following manner:

a. **Design deficiency**—(1) state what the system does or does not require; (2) if appropriate, state whether engagement deficiencies—particularly those that caused the reviewers to conclude that the reviewed firm (a) should consider taking action pursuant to the Statement on Auditing Standards (SAS) No. 46, Consideration of Omitted Procedures After the Report Date (AICPA, Professional Standards, vol. 1, AU sec. 390) and SAS No. 1, section 561, Subsequent Discovery of Facts Existing at the Date of the Auditor's Report (AICPA, Professional Standards, vol. 1, AU sec. 561) or (b) lacked a reasonable basis under the standards for accounting and review services for the reports issued—were attributable to the design deficiency; and (3) describe the effect, if any, that the deficiency had on the financial statements issued.

b. **Instances of noncompliance (performance or documentation)**—(1) state what the system requires; (2) state the frequency of noncompliance in general terms; (3) if appropriate, state whether engagement deficiencies—particularly those that caused the reviewers to conclude that the reviewed firm (a) should consider taking action pursuant to the AICPA Professional Standards, vol. 1, AU sections 390 and 561, or (b) lacked a reasonable basis under the standards for accounting and review services for the reports issued—were attributable to the instances of noncompliance; and (4) describe the effect, if any, that the instances of noncompliance had on the financial statements issued.

.25 Under the above guidelines—

a. A good way to start a letter of comment finding would be with the following words: "The firm's quality control policies and procedures . . . ." Then state what the system does or does not require. This informs the reader of the status of the system of quality control.

b. The second sentence of the finding would explain the result, such as "As a result . . . ." or "However, the firm did not always comply with these policies and as a result . . . ."
c. The last sentence should "close the loop" if the finding relates to an engagement performance deficiency. Some examples of "closing the loop" are:

- None of the missing or incomplete disclosures represented significant departures from professional standards.
- None of the missing disclosures were of such significance to make the financial statements misleading.
- We noted financial statements that did not include all of the disclosures required by generally accepted accounting principles, and, in an instance, financial statements that were materially misstated. The report on the latter financial statements has been recalled, and the financial statements are being revised.
- We were satisfied that the firm performed the necessary procedures even though they were not documented sufficiently.
- We found an engagement in which, because of a lack of involvement by the engagement partner in planning the audit, the work performed on the existence of receivables and inventory did not appear to support the firm's opinion on the financial statements. As a result of this finding, the firm performed the necessary additional procedures to provide a satisfactory basis for its opinion.

.26 Appendix A illustrates how the foregoing matters may be covered in a letter of comments on a system review under the AICPA peer review program.

.27 Appendix B contains a checklist for reviewing drafts of letters of comments on a system review.

.28 Appendix C contains illustrative examples of poorly written letter of comments items on a system review.

Illustrative Examples That Might Be Included in the Letter of Comments

.29 The rest of this section contains illustrative examples of items that might be included in letters of comments on a system review.

.30 A reviewer must evaluate whether the reviewed firm's system meets the requirements of the quality control standards for an accounting and auditing practice established by the AICPA and whether the system was being complied with to provide the firm with reasonable assurance of conforming with professional standards. By considering the nature, cause, pattern, and pervasiveness of a particular deficiency or group of deficiencies, a reviewer will decide whether a peer review report should be modified, or a matter should be included in a letter of comments, communicated orally, or not communicated at all, based on—

a. The extent to which the system is designed to meet the requirements of the quality control standards for an accounting and auditing practice established by the AICPA.

b. The instances of noncompliance with the policies and procedures established by the firm.

As a result, some examples may warrant the issuance of a modified report in certain circumstances, while an unmodified report will be appropriate in other situations with the matter being included in the letter of comments or communicated orally.
Independence, Integrity, and Objectivity

.31 The objective of the Independence, Integrity and Objectivity element of a system of quality control is to provide the firm with reasonable assurance that personnel maintain independence (in fact and in appearance), in all required circumstances, perform all professional responsibilities with integrity, and maintain objectivity in discharging professional responsibilities.

Illustrative Examples of Design Deficiencies

.32 Finding—The firm’s policies and procedures for independence, integrity, and objectivity have been appropriately communicated to the firm’s professional personnel through its quality control document and through training programs. However, the firm’s policies and procedures do not require that professional personnel be informed of all new accounting and auditing clients or engagements on a timely basis. Still, the firm has informed us that its independence has not been impaired on any accounting and auditing engagements.

Recommendation—The firm should 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 a possible independence problem with respect to the new engagements or clients contact the administrative partner immediately.

.33 Finding—The firm’s quality control policies and procedures for independence, integrity, and objectivity do not require confirmation of the independence of another firm engaged to perform segments of an accounting and auditing engagement. As a result, on the firm’s only engagement where it was the principal auditor, there was no documentation indicating that the firm engaged to perform a segment of the engagement was independent of the client. Through discussions with firm personnel, it was determined that the firm had received an oral representation from the correspondent firm that it was independent.

Recommendation—We recommend that the firm’s quality control policies and procedures be revised to require that a written independence representation be obtained from other firms engaged to perform segments of an accounting and auditing engagement when the firm is acting as the principal auditor.

.34 Finding—The firm’s quality control policies and procedures require appropriate evaluation and resolution of all questions regarding independence, integrity, and objectivity. However, the firm does not require that such resolutions be documented. As a result, the firm did not document the resolution of several independence matters identified by its staff in their annual independence statements. However, we were able to satisfy ourselves that appropriate resolutions had been reached.

Recommendation—We recommend that the firm’s quality control policies and procedures be revised to require documentation of the resolution of independence, integrity, and objectivity questions.

Illustrative Examples of Compliance Deficiencies

.35 Finding—The firm’s quality control policies and procedures require that written independence representations be obtained annually from all partners and professional staff. During our review, we noted that several of the firm’s professional staff had failed to sign such a representation. Written independence representations were subsequently obtained and no instances were noted where the firm was not independent with respect to the financial statements on which it reported.

Recommendation—We recommend that the firm comply with its policy of obtaining annual independence representations from all professional personnel, and that compliance with this policy be monitored by the managing partner of the firm. In addition, the firm should highlight this matter during its inspection procedures.


.36 Finding—The firm’s quality control policies and procedures require an evaluation and resolution of all questions regarding independence, integrity, and objectivity including a review of its accounts receivable for unpaid fees on continuing clients. Our review disclosed an instance where the firm issued a report on a
client’s financial statements before the prior year’s fee had been paid. As a result, the independence of the firm was considered impaired. The firm has recalled its report and disclaimed an opinion with respect to the financial statements.

Recommendation—To prevent the recurrence of the above situation, we recommend that the firm’s partners periodically review the list of clients with past due fees. In this review, the owners should consider when subsequent work for the client can be performed and if the report on the financial statements can be issued.

Personnel Management

.37 The objective of the Personnel Management element of a system of quality control is to provide the firm with reasonable assurance that all personnel have the proficiency to perform their assigned responsibilities. Attributes or qualities that enhance the proficiency of personnel include: integrity, objectivity, intelligence, competence, experience and motivation when performing, supervising, or reviewing work.

Illustrative Example of Design Deficiencies

.38 Finding—The firm’s quality control policies and procedures require that new employees possess certain specified qualifications. However, the hiring policies do not require that the firm document its hiring decisions and the basis thereof. As a result, the personnel files did not always contain sufficient evidence confirming that the individuals hired possess the required qualifications.

Recommendation—We recommend that the firm revise its quality control policies and procedures to require hiring decisions be documented. The nature of the documentation may vary; however, at a minimum, it should document whether an individual meets the stated qualifications and, if not, why it is acceptable to deviate from the firm’s stated hiring criteria.

.39 Finding—The firm’s quality control policies and procedures require that personnel assigned to an engagement have sufficient experience or expertise to perform the work assigned to them. However, the firm has not established adequate procedures to identify staffing requirements for specific engagements. As a result, on several engagements reviewed, certain complex procedures performed by its personnel were not performed properly. The firm has subsequently performed alternative auditing procedures on the respective engagements.

Recommendation—The firm should revise its quality control policies and procedures to establish specific procedures for planning overall personnel needs of the firm and identifying staffing requirements for specific engagements. This may be accomplished by assigning one individual the responsibility for assigning personnel to engagements and for coordinating the resolution of scheduling problems.

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3 In March 2000, the AICPA Auditing Standards Board, issued Statement on Quality Control Standards No. 5 (SQCS No. 5), The Personnel Management Element of a Firm’s System of Quality Control—Competencies Required By a Practitioner-in-Charge of an Attest Engagement (AICPA, Professional Standards vol. 2, QC section 40). SQCS No. 5 clarifies the requirements of the personnel management element of a firm’s system of quality control by requiring a firm’s system of quality control to include certain policies and procedures relative to knowledge, skills and abilities (competencies) required of individuals (practitioner-in-charge) responsible, for supervising accounting, auditing, and attestation engagements and signing or authorizing an individual to sign the accountant’s report on such engagements. The firm’s policies and procedures should address competencies for the practitioner-in-charge related to the following: (a) understanding the role of a System of Quality Control and the AICPA’s Code of Professional Conduct; (b) understanding the service to be performed; (c) understanding the applicable professional standards for accounting, auditing, and attestation, including standards related to the industry in which the client operates; (d) understanding the industry in which the client operates; (e) sound professional judgment, and (f) understanding the organization’s information technology systems.
.40 **Finding**—The firm’s quality control policies and procedures do not require that the person responsible for assigning personnel to engagements consider specialized industry experience or expertise when assigning all levels of personnel to engagements. We noted that the firm relies primarily on the engagement owner’s background and knowledge and does not give adequate consideration to the complexity or other requirements of the engagement when assigning other engagement personnel. On several engagements, we noted instances in which certain personnel did not have sufficient experience, expertise, or training in the areas assigned to them. As a result, the firm did not properly report on several financial statements in a specialized industry. The firm has appropriately recalled and reissued all of the reports.

**Recommendation**—The firm should revise its quality control policies and procedures to require that personnel assigned to engagements have sufficient experience or expertise to perform the work assigned to them. When it is necessary to assign a person who does not have sufficient experience or expertise to perform a key role on an engagement, the engagement partner should be required to document how the engagement team will compensate for this lack of experience or expertise.

.41 **Finding**—The firm’s quality control policies and procedures do not require the practitioner-in-charge of an engagement to have certain knowledge, skills and abilities (competencies) necessary to fulfill their engagement responsibilities, including knowledge of the industry in which the client operates, and an understanding of the professional standards related to that industry. As a result, we noted several engagements where industry related disclosures were not included in the financial statements of the entity. None of the missing disclosures were of such significance to make the financial statements misleading.

**Recommendation**—The firm’s quality control policies and procedures should be revised to address the competencies required of a practitioner-in-charge of an engagement, including relevant industry knowledge.

.42 **Finding**—Although the firm’s personnel were in compliance with the firm’s continuing professional education requirement, the amount of courses taken in accounting and auditing-related areas was inadequate. Consequently, we encountered instances in which emerging issues and matters relating to recent professional pronouncements had not been considered on engagements. In one such instance, the report was recalled and the accompanying financial statements were restated.

**Recommendation**—The firm’s quality control policies and procedures should be revised to include a requirement that personnel participate in an appropriate amount of continuing professional education in accounting and auditing areas.

.43 **Finding**—The firm’s quality control policies and procedures require that professional staff participate in a minimum of forty hours of continuing professional education courses each educational year. The firm’s policies also require the administrative partner to compile, at the end of each educational year, a summary of professional education courses in which each professional staff participated. The policies and procedures do not require that the files be maintained during the period or that the files be reviewed periodically to determine whether the staff is in compliance with the firm’s requirements. During our review, we noted a few individuals who had not participated in the required amount of continuing professional education courses during the year under review and were unable to make up the deficiency during the two-month grace period that followed the education year-end.

**Recommendation**—We recommend that the firm revise its quality control policies and procedures to require that the administrative partner maintain current professional development records and that he or she review these records periodically to determine whether the professional staff is complying with the firm’s policies.

.44 **Finding**—The firm’s quality control policies and procedures require that the firm maintain formal professional development records documenting each professional education course in which the professional staff participated. However, the policies and procedures do not specify the nature or extent of these
records. Consequently, we noted incomplete documentation in the continuing professional education records, even though we were satisfied that the staff had participated in a sufficient amount of continuing professional education.

Recommendation—We recommend that the firm’s quality control policies and procedures be revised to require that records be maintained for each professional in the firm for the five most recent educational years. Furthermore, the policies should require that the following information be maintained relative to each continuing professional education activity for which credit is claimed:

- Sponsoring organization
- Location of the program by city and state
- Title of program, description of content, or both
- Dates attended or completed
- Continuing professional education hours claimed

Finding—The firm’s quality control policies and procedures require that professional staff participating in governmental engagements meet the continuing education requirements established by Government Auditing Standards. However, we noted that the firm has not specifically identified these staff members and monitored their compliance with Government Auditing Standards. As a result, we noted several individuals who had not completed sufficient professional education courses to comply with Government Auditing Standards.

Recommendation—The firm’s professional education director should identify and monitor those individuals participating in governmental engagements to ensure that the continuing professional education requirements of Government Auditing Standards are met.

Finding—The firm’s quality control policies and procedures require all firm personnel to meet the professional development requirements of both their state board of accountancy and the American Institute of Certified Public Accountants. While firm personnel met these requirements, the courses taken did not provide firm personnel with sufficient information about current developments in accounting and auditing matters. As a result, our review discovered that firm personnel were not aware of recent pronouncements and new disclosure requirements and had not made necessary disclosures in financial statements in such areas as concentrations of credit risk and income taxes. None of the missing disclosures were of such significance to make the financial statements misleading.

Recommendation—The firm should revise its quality control policies and procedures to require firm personnel to participate in an appropriate amount of accounting and auditing continuing professional education in the industry areas in which the firm practices.

Finding—The firm has not established specific personnel management policies and procedures regarding the qualifications necessary for each level of responsibility within the firm and for the advancement of personnel. However, we did not encounter any situation where the firm’s personnel did not have the qualifications necessary to fulfill their responsibilities.

Recommendation—We recommend that the firm establish and document the qualifications necessary for each level of responsibility, including advancement to the next higher level of responsibility, and create a review structure indicating who will prepare evaluations and when they will be prepared to ascertain that personnel meet the firm’s requirements before they are promoted.

Finding—The firm’s quality control policies and procedures require a practitioner-in-charge of an engagement to possess certain knowledge, skills and abilities (competencies) to allow that individual to fulfill
their engagement responsibilities. However, we noted on several engagements in a highly specialized industry where the practitioner-in-charge of each engagement did not possess an adequate understanding of the professional standards related to the industry in which the clients operate. As a result, the firm did not properly report on several financial statements in a specialized industry. The firm has appropriately recalled and reissued all of the reports.

Recommendation—The firm should consider the technical proficiency and an individual's familiarity with an industry before assigning the practitioner-in-charge of a particular engagement. Also, before accepting an engagement in an industry in which the firm has little or no experience, the firm should develop a plan for assisting the practitioner-in-charge of the engagement to gain adequate technical proficiency and familiarity with the industry in which the entity operates.

Illustrative Example of Compliance Deficiencies

.49 Finding—The firm's quality control policies for hiring require that certain background information be obtained relative to the qualifications of prospective employees (including resumes, applications, college transcripts, and references). During our review, we noted numerous instances in which the personnel files for professional staff hired other than through the firm's college campus recruiting program did not contain evidence that the individual met the firm's stated qualifications.

Recommendation—We recommend that the firm take greater care in ensuring that it complies more fully with its personnel management policies. The firm should assign an individual with appropriate experience to monitor the firm's compliance with its policy of obtaining background information on prospective employees.

.50 Finding—The firm's quality control policies and procedures require that engagement owners evaluate planning schedules to ensure that the personnel assigned to an engagement have sufficient experience or expertise to perform the work assigned to them. However, on some engagements reviewed, the personnel below the partner level did not appear to have adequate experience, expertise, or training to perform their work. As a result, certain procedures were not performed adequately. The firm has considered the requirements of professional standards on the engagements, and has determined that sufficient procedures had been performed in other areas to support the report issued on the financial statements.

Recommendation—The firm should adhere to its quality control policies and procedures requiring that when a person who does not have sufficient experience, expertise, or training is assigned a key role on an engagement, the engagement partner is to develop and document an action plan on how the engagement team will compensate for this lack of experience, expertise, or training.

.51 Finding—Our review disclosed that professional staff had not received copies of certain professional pronouncements issued during the past year as required by firm policy. During our review, we did not note any significant departures from professional standards as a result of this deficiency.

Recommendation—In order to keep professional staff current on financial accounting, auditing, and reporting matters, we recommend that all professional staff receive copies of professional pronouncements as soon as they are available to the firm for distribution.

.52 Finding—The firm's quality control policies and procedures require that all professional personnel who spend more than a specified amount of time working on an accounting and auditing engagement should receive a written evaluation of their performance in a timely manner. During our review, we determined that such evaluations were not being completed in many instances and that several evaluations which were completed were not prepared timely.

\footnote{See footnote 3.}
Guidance for Performing and Reporting on Peer Reviews

Recommendation—The firm should comply with its policies and procedures requiring the completion of evaluations promptly for personnel performing accounting and auditing engagements. The firm should also monitor the preparation and communication of these evaluations during the completion phase of each engagement in accordance with its policies and procedures. The firm should designate an individual on each engagement whose responsibility would be to determine the evaluations that should be prepared and identify those which have not been prepared.

Acceptance and Continuance of Clients and Engagements

.53 The objective of the Acceptance and Continuance of Clients and Engagements element of a system of quality control is to establish criteria for deciding whether to accept or continue a client relationship and whether to perform a specific engagement for that client. Such policies and procedures should provide the firm with reasonable assurance that (a) the likelihood of associations with a client whose management lacks integrity is minimized, (b) the firm undertake only those engagements that can be completed with professional competence, (c) the risks associated with providing professional services in particular circumstances are appropriately considered, and (d) an understanding with the client regarding the services to be performed is reached.

Illustrative Examples of Design Deficiencies

.54 Finding—The firm's quality control policies and procedures do not require communication with the predecessor auditor of a prospective client as required by professional standards. During our review, we noted an instance where there was no documentation of communication with a predecessor auditor. However, we were informed by the firm's personnel that the required communication had been made orally.

Recommendation—The firm should revise its quality control document to require communication with predecessor auditors and to require that such communications be documented.

.55 Finding—The firm's quality control policies and procedures require evaluation of prospective clients for approval before acceptance as clients, and periodic evaluation of all clients to ensure that the firm's criteria for client continuance are met. However, the firm does not require any specific documentation of such evaluations and we noted no documented evidence that evaluations had been performed. We were informed by the firm's partners that they had complied with their policies and procedures, but had not documented this information.

Recommendation—The firm's quality control policies and procedures should be revised to require documentation of its acceptance and continuance procedures and decisions. The firm should revise and implement client acceptance and continuance forms to ensure that all appropriate factors, such as inquiries with the client's attorneys, bankers, and predecessor accountant, are considered in each case.

.56 Finding—The firm's quality control policies and procedures require evaluation of prospective clients for approval before acceptance as clients. However, the firm does not have specific procedures for acceptance of an engagement for existing or prospective clients in a specialized industry for which it does not have the necessary industry expertise. During our review, we noted an instance where the firm accepted an engagement in a specialized industry although it had no experience or expertise in that industry and it did not update its library to include reference materials related to that area of practice. As a result, certain industry-specific audit procedures were not performed on the engagement. The firm has subsequently performed the omitted audit procedures to support the audit opinion issued.

Recommendation—The firm should revise its quality control policies and procedures for client acceptance to require that, when an engagement is accepted in a specialized industry for which the firm has no experience or expertise, a specific action plan be developed and documented for obtaining the necessary industry expertise. The firm should not perform engagements in specialized industries unless it obtains the appropriate experience or expertise. This matter should be emphasized during the firm's next inspection procedures.
.57 Finding—The firm’s policies and procedures regarding acceptance and continuance of clients and engagements do not require the firm to evaluate whether to perform a specific engagement for an existing client, specifically if the level of service previously provided is changed. As a result, the firm does not always evaluate whether the engagement should be performed by the firm. During our review, we noted an instance where the firm had previously reported on compiled financial statements of a client. The current engagement included reporting on audited financial statements. The firm had no previous experience in conducting audits in the industry. As a result, the firm did not perform certain audit procedures as required by professional standards. The firm has subsequently performed the audit procedures to support its audit opinion on the financial statements.

Recommendation—We recommend that the firm revise its quality control procedures for client acceptance to include an evaluation by the firm for all instances when the level of service changes on an existing client. The firm should consider such areas as firm experience or expertise in both the level of service to be provided and the industry in which the client operates.

.58 Finding—The firm’s policies and procedures regarding client and engagement acceptance do not identify procedures to be followed when engaged by the client to provide new services. During our review we noted an instance on an audit engagement where the firm was asked to perform an attestation engagement on prospective financial statements. Our review disclosed that this was the only attestation engagement performed by the firm. As a result, the firm issued an inappropriate report on the prospective financial statements. The firm has subsequently recalled and reissued its report on the prospective financial statements.

Recommendation—The firm should revise its policies and procedures regarding acceptance and continuance of clients and engagements to ensure that the firm has both the knowledge and expertise necessary to perform the engagement in an area which is new to the firm.

Illustrative Examples of Compliance Deficiencies

.59 Finding—The firm’s quality control policies and procedures specify criteria that should be considered when making client continuance decisions and requires that such decisions be documented. During our review, we were unable to determine whether client continuance decisions had been made in accordance with the firm’s policies. However, we were informed by the firms’ partners that continuance decisions are discussed informally and that continuance is assumed by staff in the absence of instructions to discontinue service to the client.

Recommendation—The firm should comply with its quality control policies and procedures by periodically evaluating its existing clients in accordance with the criteria set forth in its quality control document. The firm should also document such evaluations and decisions as required by firm policy, possibly by using a standardized form.

.60 Finding—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 considerations 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.

.61 Finding—The firm’s quality control policies and procedures require that the managing partner approve changes in levels of services provided to existing clients. During our review, we noted that on several engagements the level of service had changed from a review to an audit. Approval for this change by the
managing partner was not documented in either the working papers of the client or the administrative files of the firm. During our review of the engagement, we did not note any significant departures from professional standards as a result of this deficiency.

**Recommendation**—The firm should comply with its quality control policies and procedures by evaluating its acceptance and continuance of clients and engagements with special emphasis on those clients where the level of service provided to the client has changed. In such instances the approval of both the engagement and managing owner should be documented.

### Engagement Performance

.62 The objective of the Engagement Performance element of a system of quality control is to provide the firm with reasonable assurance that the work performed by engagement personnel meets the applicable professional standards, regulatory requirements, and the firm’s standards of quality. Policies and procedures for engagement performance encompass all phases of the design and execution of the engagement. To the extent appropriate and as required by applicable professional standards, these policies and procedures should cover planning, performing, supervising, reviewing, documenting, and communicating the results of each engagement. Policies and procedures should also provide that personnel refer to authoritative literature or other sources and consult, on a timely basis, with individuals within or outside the firm, when appropriate.

### Illustrative Examples of Design Deficiencies

.63 **Finding**—The firm’s quality control policies and procedures do not require the engagement partner to tailor the firm’s required general reporting and disclosure checklist to the specialized industry in which the client operates. During our review, we noted the checklist was not tailored to address specific disclosures required by industry standards. As a result, certain disclosures were not in the appropriate format as required by industry standards. The incomplete disclosures did not render the financial statements misleading.

**Recommendation**—The firm should revise its quality control policies and procedures to require the engagement partner to tailor the firm’s required general reporting and disclosure checklist to include questions on disclosures specific to the industry to which the client operates.

.64 **Finding**—The firm’s quality control policies and procedures do not specify the working papers that should be reviewed by engagement partners or require any documentation of the partner’s review. While reviewing engagements, we were unable to determine from the working papers the extent of the engagement partner’s review. This lack of documentation did not result in the issuance of an inappropriate report.

**Recommendation**—The firm should revise its quality control policies and procedures to specify the extent and nature of the engagement partner’s review of work papers, and to require documentation of the extent of the review. Such documentation can be initialing the working papers, file covers, or a partner review checklist.

.65 **Finding**—The firm’s quality control policies and procedures require that all accounting and auditing engagements be properly planned. However, the firm does not provide specific procedures for documenting its engagement planning, including the consideration of audit risks and preliminary judgments about materiality limits. During the review of engagements, we noted several instances where we could not determine if the firm had considered preliminary judgments about materiality or its assessment of control risk. Through discussion with firm personnel, we satisfied ourselves that appropriate planning procedures had been performed.

**Recommendation**—The firm should revise its quality control policies and procedures to designate those matters that should be considered and documented during the planning process. These may include such areas as (1) current economic conditions affecting the client or the client’s industry and the potential effect

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on the conduct of the engagement, (2) results of preliminary analytical procedures, (3) changes in the client's organization, (4) need for specialized knowledge, (5) proposed work programs, and (6) preliminary judgments about materiality levels. In establishing such policies, the firm should consider obtaining or designing a planning checklist or requiring the preparation of an overall planning memorandum.

.66 Finding—The firm requires that its model audit program be used on all audit engagements. However, the firm does not require that this program be tailored to cover the requirements of specialized industries, when necessary. As a result, our review of engagements disclosed that certain industry specific audit procedures were not performed. The firm has subsequently performed the omitted procedures to support the audit opinion issued.

Recommendation—The firm's quality control policies and procedures for planning should be expanded to include a review and, when necessary, tailoring of the audit program before the start of field work. The firm should consider obtaining or developing audit programs that reflect the specialized industries in which its clients operate.

.67 Finding—The firm does not provide its professional staff with a means of ensuring that all necessary procedures are performed on review and compilation engagements. As a result, the firm's review and compilation working papers did not include documentation of all the procedures required by firm policy or professional standards. However, we were able to satisfy ourselves that, in each case, sufficient procedures had been performed.

Recommendation—Although not required by professional standards, the firm should consider obtaining or developing work programs for use on review and compilation engagements.

.68 Finding—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.

.69 Finding—The firm's quality control policies and procedures do not require documentation of its understanding of an entity's internal control structure on engagements for which it has assessed control risk at the maximum level. As a result, on several engagements reviewed there was no documentation in the working papers of the firm's understanding of the internal control structure of the client. However, we were satisfied in each case that the firm has a understanding of the client's internal control structure and that the audit was properly planned.

Recommendation—The firm should revise its quality control policies and procedures to require documentation of its understanding of internal control structures on all audit clients as required by professional standards. Such documentation may be a memorandum in the working papers.

.70 Finding—The firm's quality control policies and procedures require that accounting and auditing practice aids acquired from a third-party provider should be used for all accounting and auditing engagements. Our review disclosed that the firm has selectively used these materials in conjunction with materials from other sources without carefully reviewing the compatibility of the materials. As a result, on the audit engagements reviewed, the programs and checklists used did not address certain aspects of engagement planning, particularly preliminary analytical review, audit risk assessment, and consideration of an entity's internal control structure. These areas were not adequately documented in the engagement work papers.
However, we were able to satisfy ourselves that, in each case, these areas were appropriately considered in determining the nature and extent of auditing procedures.

**Recommendation**—We recommend the firm review the materials obtained from the third-party provider and determine how they can best be implemented in the firm's accounting and auditing practice. The use of other materials for specialized areas should be blended with the new materials so that engagement planning is adequately addressed.

**.71 Finding**—The firm's quality control policies and procedures for reviewing accountants' reports and financial statements before issuance are not adequately designed to ensure conformity with professional standards. During our review, we noted that on several compilation and review engagements the accountant's report did not describe what responsibility, if any, the accountant was taking regarding accompanying supplementary information. Also, we found some occasions where the supplementary information was not referenced to the accountant's report. In all cases, supporting working papers were present to indicate an appropriate level of service had been performed on the supplementary information. The firm's inspection program did identify this situation and use of a disclosure checklist was implemented subsequently to the year under review.

**Recommendation**—Although not required by professional standards, the firm should consider the implementation and use of reporting and disclosure checklists on all engagements. Continued monitoring of the use of these disclosure checklists through inspection procedures will help ensure adherence to the firm's quality control standards.

**.72 Finding**—The firm's quality control policies and procedures do not require the engagement partner to review the accountants' or auditors' reports, the accompanying financial statements, and working papers before issuance. During our review, we noted several engagements were not adequately supervised or reviewed as required by professional standards. As a result, several accountants' reports did not report on supplementary data included in the financial statements. In addition, an auditor's report prepared on a basis prescribed by a regulatory agency did not include the appropriate wording required by professional standards. None of the reporting deficiencies were of such significance as to require additional action by the firm.

**Recommendation**—The firm should revise its quality control policies and procedures to require a review of the accountants' and auditors' reports, the accompanying financial statements, and working papers before issuance. Such means might include the use of an engagement partner review checklist on all engagements even though not required by professional standards.

**.73 Finding**—Our review disclosed that the firm's quality control policies and procedures do not identify situations where, because of the nature or complexity of the subject matter, consultation ordinarily is needed. As a result, we noted a few instances where consultation had not occurred when it would have been appropriate. These instances did not, however, result in the issuance of an inappropriate report.

**Recommendation**—The firm should revise its quality control policies and procedures to specify the situations when, because of their nature or complexity, consultation is required. Such situations might include the following: (1) the application of newly issued technical pronouncements, (2) the application of a regulatory agency's filing requirements, (3) industries with special accounting, auditing, or reporting considerations, (4) emerging practice problems, and (5) cases where there is a choice among alternative generally accepted accounting principles.

**.74 Finding**—Our review disclosed that the firm's quality control policies and procedures do not provide procedures for resolving differences of opinion between engagement personnel and specialists. We noted no instances in which differences of opinion on practice problems had not been resolved to the satisfaction of all the parties involved, even though the individuals indicated that they did not have a clear understanding of the firm's policies to be followed in such circumstances.
**Recommendation**—We recommend that the firm revise its quality control policies and procedures to describe the procedures for resolving differences of opinion between engagement personnel and specialists. These procedures should then be communicated through the firm’s quality control document to all professional personnel.

**.75 Finding**—The firm’s quality control policies and procedures do not provide a means for ensuring that its library contains all relevant technical manuals and materials. Our review disclosed that the firm’s reference library contains outdated technical manuals and lacks industry audit and accounting guides in many industries in which the firm’s clients operate. As a result, we noted a few instances where financial statement formats and disclosures deviated from these guides. However, none of these instances caused the statements to be misleading.

**Recommendation**—We recommend that the firm’s quality control policies and procedures be revised to ensure that the firm’s library contains all relevant materials. The firm may wish to consider assigning one person the responsibility of ensuring that the library is comprehensive and up-to-date and that it includes all the industry auditing and accounting guides for the industries in which the firm’s clients operate.

**Illustrative Examples of Compliance Deficiencies**

**.76 Finding**—The firm’s quality control policies and procedures require the use of standard programs on audit engagements for the review of electronic data processing (EDP) controls. However, we noted that these programs were not always used. As a result, audit working papers did not include documentation of the firm’s understanding of its clients’ EDP controls. We were able to satisfy ourselves that a sufficient review of these controls had been performed in accordance with professional standards.

**Recommendation**—The firm should discuss at a staff training session its engagement performance policy to use standard programs to review EDP controls. All partners should be advised to monitor compliance with this policy when reviewing audit working papers. Further, the firm should add a step to its planning checklist to ensure that EDP programs have been completed.

**.77 Finding**—On several of the engagements reviewed, we noted that a concurring review by a partner having no other responsibility for the engagement, required by firm policy, had not been performed. On these engagements, we noticed that several disclosures required by generally accepted accounting principles were omitted from the financial statements. However, none of the missing disclosures were of such significance to make the financial statements misleading.

**Recommendation**—The firm should comply with its engagement performance policy of having a concurring partner review for each engagement. To insure compliance with this policy, the firm should require that the concurring partner initial the report docket before the report is issued.

**.78 Finding**—The firm’s audit programs outline steps for performing and documenting audit planning procedures for preliminary judgments about materiality levels, planned assessed level of control risk, analytical review procedures, and conditions that may require extension or modification of tests. However, our review disclosed several instances where the firm’s planning working papers did not include documentation for these areas. Through discussion with engagement personnel, we were able to satisfy ourselves that the engagement planning was adequate.

**Recommendation**—The firm should hold a training session for all professionals on the matters to be considered and documented in planning an audit engagement. In addition, the firm may consider obtaining or developing a planning checklist to assist staff in planning an audit engagement and documenting the results thereof.

**.79 Finding**—The firm’s quality control policies and procedures require communication of reportable conditions noted during an audit to client management in accordance with professional standards. During our review, however, we noted instances where the communication of reportable conditions in internal
accounting controls was not documented. Although the firm has represented that the reportable conditions were communicated orally to its client, there was no memorandum or notation in the working papers as required by professional standards.

**Recommendation**—The firm should discuss in a staff meeting the importance of adhering to professional standards regarding documentation of communication of reportable conditions to client management. In addition, the firm should also update its audit programs to include a step on documenting the communication of reportable conditions in the working papers.

.80 **Finding**—The firm's quality control policies and procedures require completion of a reporting and disclosure checklist. However, on several engagements reviewed, we noted inappropriate answers on this checklist. As a result, several financial statements did not include all the disclosures required by generally accepted accounting principles in such areas as concentrations of credit risk and related party transactions. None of the missing disclosures were of such significance as to make the financial statements misleading.

**Recommendation**—The partners of the firm should carefully review the reporting and disclosure checklist as part of the final engagement review. In addition, a training session should be held to review with the staff the questions on the financial statement reporting and disclosure checklist.

.81 **Finding**—The firm's quality control document identifies areas and specialized situations where consultation and the documentation thereof is required. Our review disclosed several instances where consultation should have taken place, but there was no documentation of such consultation in the working papers. However, through discussions with engagement partners, we were able to satisfy ourselves that the staff had consulted as required.

**Recommendation**—We recommend that the firm discuss the importance of documenting consultations in a staff training session. The firm should consider requiring the documentation is reviewed and approved by the person consulted.

.82 **Finding**—The firm's quality control policies and procedures identify situations where, because of the nature or complexity of the subject matter, consultation ordinarily is needed. During our review, we noted a few instances where the firm appropriately consulted with outside sources; however, they failed to reconcile a difference between the advice of the outside source and the requirements of professional standards. As a result, the firm did not issue certain reports required in a regulated industry. Subsequent to the peer review, the firm issued those reports.

**Recommendation**—We recommend that, in addition to consulting outside sources when necessary, the firm also consult the appropriate technical literature. If differences arise between these sources, the firm should take steps to reconcile the differences.

.83 **Finding**—The firm's quality control policies and procedures state that when experience is not available within the firm to resolve a practice question or problem, engagement personnel should consult with the AICPA or the state CPA society. Our review disclosed an instance where the firm did not have the experience required and did not consult with the AICPA or the state CPA society as required by firm policy. In this instance, an partner designated as a specialist in another industry was consulted, but the advice rendered resulted in the misapplication of a generally accepted accounting principle. Since the amount involved did not make the financial statements misleading, the firm decided not to recall its report; the client has agreed, however, to adjust the financial statements in the next period in which they are prepared.

**Recommendation**—We recommend that the firm discuss at a staff training session the importance of consulting the appropriate resources and that, when those resources are not available internally, an outside one should be contacted. In addition, designated specialists within the firm should be reminded that they should not exceed their authority in consultative situations by providing advice in areas outside their expertise.
.84 Finding—The firm’s quality control policies and procedures require consultation in situations that involve complex subject matter or newly issued technical pronouncements. During our review, we noted several instances where consultation was warranted, but the firm did not consult. The firm issued several reports on financial statements prepared on a basis of accounting prescribed by a regulatory agency for filing with that agency. However, the auditors’ reports issued did not include all required wording to conform with professional standards. The reporting deficiencies were not of such significance to make the auditors’ reports misleading.

Recommendation—We recommend the firm revise its quality control policies and procedures to require the engagement partners, concurring partners, or both to affirm specifically that consultation occurred in all situations where it is required by firm policy or otherwise warranted. In addition, the firm should discuss at a staff training session its policies regarding consultation as outlined in its quality control document. The firm should encourage its staff to consult with or use authoritative sources on complex or unusual matters in accordance with firm policy.

Monitoring

.85 The objective of the Monitoring element of a system of quality control is to provide the firm with reasonable assurance that the policies and procedures relating to the other elements of quality control are suitably designed and being effectively applied. Monitoring is an ongoing consideration and evaluation process.

.86 Statement on Quality Control Standards No. 3, Monitoring a CPA Firm’s Accounting and Auditing Practice (AICPA, Professional Standards, vol. 2, QC sec. 30), states—

Monitoring procedures taken as a whole should enable the firm to obtain reasonable assurance that its system of quality control is effective. Procedures that provide the firm with a means of identifying and communicating circumstances that may necessitate changes to or the need to improve compliance with the firm’s policies and procedures contribute to the monitoring function.

Illustrative Examples of Design Deficiencies

.87 Finding—As part of its monitoring procedures, the firm requires preissuance reviews of each report, the accompanying financial statements, and the related working papers for engagements in specialized industries by both the engagement partner and a partner who is not associated with the engagement. However, the firm does not monitor performance on engagements in other industries of its practice.

Recommendation—The firm should revise its quality control policies and procedures to make sure preissuance reviews encompass engagements in each industry in which the firm practices or monitor compliance with the firm’s policies and procedures through periodic inspections on these engagements.

.88 Finding—The firm’s monitoring policies and procedures for inspection omit specialized industry knowledge as criteria in selecting inspectors. As a result, a manager reviewed several engagements in a specialized industry with which he had little knowledge. Our review of engagements in this industry, however, did not disclose any significant departures from professional standards.

Recommendation—The firm should revise its quality control policies and procedures to include technical expertise and relevant specialized industry knowledge as a criteria in selecting inspectors. In doing so, the firm will assure it has access to the necessary expertise if inspection findings require corrective actions.

.89 Finding—The firm’s monitoring policies and procedures for inspection do not require the preparation of memoranda summarizing the results of the firm’s inspection procedures and the implementation of corrective actions. As a result, the firm did not document its monitoring of the actions taken in response to the inspection findings.
Recommendation—The firm should revise its quality control policies and procedures to require the preparation of an inspection memorandum summarizing findings, indicating recommended corrective actions, and setting timetables for completing the corrective actions. At a minimum, the memorandum should be distributed to key management personnel and an partner should be designated to monitor the firm’s compliance with the policy.

.90 Finding—The firm’s monitoring policies and procedures require that inspection procedures be performed in accordance with the AICPA’s Monitoring Guidance, however, those policies and procedures do not include a requirement to consider the results of those inspection procedures to ensure that the practitioner-in-charge of each of the firm’s engagements, selected for review, has knowledge, skills and abilities (competencies) necessary based on the specific circumstances. As a result, we noted several engagements where certain procedures required by professional standards were not performed. The firm has subsequently performed the omitted procedures for the respective engagements.

Recommendation—The firm should revise its monitoring policies and procedures to require the consideration of the results of its inspection procedures, to ensure that a practitioner-in-charge of an engagement has the necessary competencies to fulfill their responsibilities on the engagement.

.91 Finding—The firm’s quality control policies and procedures provide for a postissuance review of engagements to serve as one of its monitoring procedures to provide evidence that the firm’s system of quality control is suitably designed. However, we noted that the firm’s policy does not identify a mechanism for timely communication to the firm’s personnel regarding any findings resulting from the monitoring procedures.

Recommendation—The firm should develop a procedure to ensure that all staff are informed timely of the results of the monitoring procedures, appropriate actions are planned to implement corrective measures, and appropriate personnel charged with the responsibility of ensuring the planned actions are taken.

Illustrative Examples of Compliance Deficiencies

.92 Finding—The firm’s quality control policies and procedures require that findings on engagement reviews be summarized so that management can consider what types of corrective actions, if any, are necessary. However, the firm did not summarize inspection findings from engagement reviews from the most recent inspection procedures, even though each engagement partner considered and responded to findings for his or her individual engagements.

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

.93 Finding—The firm’s quality control document requires that inspection procedures be performed in accordance with the AICPA’s Monitoring Guidance. In its most recent inspection procedures, however, the firm did not review certain elements of quality control.

Recommendation—The firm should comply with its quality control policies and procedures by using all of the recommended forms in the AICPA’s Monitoring Guidance. The use of these forms should result in the performance of all the required inspection procedures, including the review of all of the functional areas of quality control. In addition, a partner in the firm should be designated to monitor the firm’s compliance with this policy.

.94 Finding—The firm’s quality control policies and procedures require timely inspection procedures. Our review revealed for the last two years the reports on the inspection procedures performed were dated almost one year after the particular inspection year-end. As a result, the firm did not implement the recommended corrective actions prior to beginning subsequent engagements.
Recommendation—the firm should perform its inspection procedures in a timely manner so that corrective actions can be implemented before engagements are performed in the subsequent year, and an owner of the firm should be designated to monitor the firm’s timely performance of its annual inspection procedures.

Finding—the firm has a written quality control document that requires the firm to perform internal inspection procedures. However, during our review, we noted that the firm did not perform inspections procedures as required. If adequate and timely inspection procedures had been performed each year, many departures from professional standards noted during our review would have been identified and corrected.

Recommendation—the firm should comply with its quality control policies and procedures regarding inspection and a designated partner of the firm should monitor the firm’s compliance with its policies and procedures and conformity with professional standards.

Finding—the firm’s policies and procedures require that the firm’s postissuance review be sufficiently comprehensive to enable the firm to assess conformity with all applicable professional standards and the firm’s compliance with quality control policies and procedures. During our review of several engagements, we noted ineffective postissuance review in monitoring the firm’s adherence to its quality control policies and procedures. This ineffective postissuance review resulted in the firm not complying with its policies and procedures for timely communication of engagement deficiencies to appropriate professional staff.

Recommendation—we recommend that the firm hire an outside party to monitor the effectiveness of the firm’s postissuance review, identify systemic reasons for engagement deficiencies, and communicate such deficiencies timely to appropriate professional staff.

Finding—the firm’s monitoring policies and procedures require either inspection procedures or postissuance report and working paper review be performed periodically on a sample of the firm’s accounting and auditing practice to ensure compliance with the elements of quality control. The monitoring policy further requires the inspection or postissuance review procedures be documented for each engagement and the findings summarized by each element of quality control. During our review, we were informed that neither inspection nor postissuance review procedures had been performed on a sample of the firm’s accounting and auditing practice for the previous year.

Recommendation—we recommend the firm comply with its monitoring policies and procedures requiring periodic monitoring of its accounting and auditing practice. We further recommend the firm designate the partner in charge of the accounting and audit practice as the individual to determine the engagements to be selected for monitoring and to accumulate and distribute the results of the findings generated by the monitoring procedures to all professional staff.
Appendix A

Sample Letter of Comments on a System Review for the AICPA Peer Review Program

[AICPA or other appropriate letterhead]

August 31, 20__

[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 Able, Baker, & Co. (the firm) in effect for the year ended June 30, 20__, and have issued our report thereon dated August 31, 20__ (that was modified as described therein)*. That report should be read in conjunction with the comments in this letter, which were considered in determining our opinion.

Matters That Resulted in a Modified Report

Engagement Performance

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

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

Matters That Did Not Result in a Modified Report

Engagement Performance

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

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

Monitoring

Finding—The firm’s policies and procedures require that findings on engagement reviews be summarized so that management can consider what types of actions, if any, are necessary. However, the firm did not summarize inspection findings from engagement reviews from the most recent inspection, even though each engagement owner considered and responded to findings for his or her individual engagements.

* Include this phrase only when the report is modified or adverse and tailor it to fit the circumstance.

PRP §3400.98
Recommendation—The firm should comply with its policy of summarizing inspection findings, considering the overall systems' implication of these findings and documenting management's monitoring of the actions taken, and a partner in the firm should be designated to monitor the firm's compliance with this policy.

Brown & Co.

for review by a firm

or

William Brown
Team Captain

for review by an association sponsored or committee appointed review team
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<thead>
<tr>
<th>No.</th>
<th>Question</th>
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<tbody>
<tr>
<td>1.</td>
<td>Does the letter of comments (LOC) conform with the standard LOC included in the applicable standards?</td>
</tr>
<tr>
<td>2.</td>
<td>If the report is modified, have the comments been segregated appropriately in the section entitled “Matters that Resulted in a Modified (Adverse) Report?”</td>
</tr>
<tr>
<td>3.</td>
<td>Are headings included for each quality control element on which there is a comment?</td>
</tr>
<tr>
<td>4.</td>
<td>Is each finding and recommendation clearly captioned?</td>
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<tr>
<td>5.</td>
<td>Are findings written with a systems orientation?</td>
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<tr>
<td>6.</td>
<td>Are findings caused by the same quality control deficiency grouped into a single comment?</td>
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<td>7.</td>
<td>Are general terms used to indicate frequency of occurrence rather than specific numbers?</td>
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<tr>
<td>8.</td>
<td>Have you avoided identifying, by name or otherwise, specific engagements, individuals, or offices?</td>
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<tr>
<td>9.</td>
<td>Are comments written in a succinct, but complete, manner (without excessive details)?</td>
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<td>10.</td>
<td>Are the findings clearly understandable to someone not familiar with the specific engagement and functional area findings?</td>
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<td>11.</td>
<td>Are findings written in a specific enough manner so that the comment will not automatically be repeated on the next review?</td>
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<td>12.</td>
<td>Have personal preference items been excluded from the letter?</td>
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<td>13.</td>
<td>Is the letter of comments free of all references to specific technical standards?</td>
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<td>14.</td>
<td>Have third-party practice aids been referred to in general terms?</td>
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<tr>
<td>15.</td>
<td>Has the “loop been closed” in all cases in which performance deficiencies are mentioned without expressing negative assurance?</td>
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<tr>
<td>16.</td>
<td>Are repeat comments clearly identified?</td>
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</table>

* All “no” answers should be resolved before the letter of comments is finalized.
.100 Appendix C
Examples of Poorly Written Letter of Comments Items on System Reviews

This appendix contains illustrative examples of poorly written items included in letters of comments on system reviews. Each example includes a critique of the deficiencies noted. Reviewers should focus on the points included in the critiques. It is important to remember that a well-written letter of comments enhances the peer review documents.

.101 Example 1:

In one audit engagement, the firm’s working paper files did not contain a letter from the client’s attorney as to litigation, etc. In another engagement, attorney responses were dated several weeks prior to the date of the auditor's report. The firm should add a step to its audit programs to require documentation of the procedures performed to obtain updated responses to attorney letter replies received prior to the end of field work.

Critique of Example 1:

- The finding does not identify what the firm’s quality control policies and procedures do or do not require regarding the obtaining of letters of inquiry from a client’s attorney. Further, the finding does not describe the implications of the deficiencies noted.
- The finding is written in an engagement-oriented format rather than a systems-oriented format. As described in the guidance material, the letter of comments should include comments regarding the design of the reviewed firm’s system of quality control or its compliance with that system.
- The finding cites the exact number of instances noted rather than using general terms to indicate frequency, such as “in some instances” or “frequently.”
- The example does not include captions highlighting the findings and recommendations.

Suggested Rewording for Example 1:

Finding—The firm’s quality control policies and procedures require obtaining letters of inquiry from a client’s attorney for all audit engagements. However, we noted instances where the attorney’s letters had not been obtained or were dated several weeks prior to the auditor’s report. Subsequent to our review, the firm has requested and received the missing attorney letters and received updated responses for the attorney letters dated prior to the date of the auditor’s report.

Recommendation—The firm should reemphasize the importance of complying with its policy of obtaining attorney letters for all auditing engagements. In addition, during their review of engagement working papers, supervisory personnel should ensure that attorney letters are dated as close to the completion of fieldwork as is practicable in the circumstances. The partners of the firm should ensure that these documents are reviewed as part of their review of working papers.

.102 Example 2:

In a few instances, the financial statements did not disclose the carrying basis of property, plant and equipment and whether or not any of the assets were donated.

Critique of Example 2:

- The finding does not have a recommendation.
- The finding does not indicate the effect on the financial statements, if any, as a result of the deficiencies noted, and it is not clear why the finding is important.
- The finding does not indicate the likely cause of the deficiency (for example, inadequate financial statement disclosure and reporting checklist or lack of appropriate partner review).
Suggested Rewording for Example 2:

_Finding_—The firm’s quality control polices and procedures require the review of the reporting and disclosure checklist for all audit engagements. During our review, we noted an engagement partner failed to review several reporting and disclosure checklists. As a result, certain questions on the reporting and disclosure checklists contained inappropriate or incomplete answers, which lead to engagements that did not include all the disclosures required by generally accepted accounting principles. None of the missing disclosures were of enough significance to make the financial statements misleading.

_Remediation_—The firm should reemphasize the importance of thoroughly completing its comprehensive financial statement reporting and disclosure checklists. The engagement partner should carefully review the reporting and disclosure checklist as part of the final financial statement review.

.103 Example 3:

_Finding_—Every engagement we reviewed was determined to be in conformity in all material respects with professional standards. However, in a number of engagements reviewed, there were inadequate disclosures regarding related party matters.

_Remediation_—All material related party transactions should be disclosed in the financial statements as required by FASB Statement No. 57.

Critique of Example 3:

- The finding and recommendation do not indicate the systems implications of the deficiency. Why were the disclosures inadequate? Were firm policies followed?
- Generally, a finding should include a conclusion as to the effect, if any, the deficiencies had on the financial statements reviewed.
- Recommendations that essentially say “follow professional standards,” as in the example, are not helpful to the firm. Instead, recommendations should address the underlying cause of the deficiency.
- The recommendation refers to a specific technical pronouncement without a clear indication of the nature of the standard.

Suggested Rewording for Example 3:

_Finding_—The firm’s quality control polices and procedures require the completion of a financial statement reporting and disclosure checklist for all audit, review, and full disclosure compilation engagements. During our review, we noted an engagement partner failed to review the reporting and disclosure checklists. As a result, certain questions on the reporting and disclosure checklists contained inappropriate or incomplete answers, which lead to several instances where the financial statements did not include all the disclosures required by generally accepted accounting principles. The incomplete disclosures were not of such significance as to make the financial statements misleading.

_Remediation_—The firm should reemphasize its policy of using reporting and disclosure checklists on all full disclosure engagements. The engagement partner should carefully review the disclosure checklist as part of the final financial statement review. In addition, a training session should be held to review with staff the disclosure requirements.

.104 Example 4:

_Finding_—The firm’s procedural documents do not provide guidance with respect to audit sampling procedures, or analytical review procedures.

_Remediation_—The firm should include, in its accounting manual, guidance on audit sampling procedures and analytical review procedures.
Critique of Example 4:

- The finding does not describe the engagement deficiencies, if any, resulting from this design deficiency.

Suggested Rewording for Example 4:

Finding—The firm's quality control policies and procedures provide for audit sampling procedures and analytical review procedures. However, the firm has not established performance procedures or documentation requirements for these areas. As a result, we noted instances where the firm performed non-statistical sampling, but did not document its considerations. In addition, on several engagements reviewed, there was no documentation of analytical review procedures. 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. This can be accomplished by obtaining or developing a standardized form that conforms to the guidance included in professional standards. In addition, the firm should revise its policies to require specific analytical review procedures and the documentation of such procedures.

.105 Example 5:

Finding—The firm does not use planning programs and, as a result, planning procedures are not always fully documented in engagement working papers. On certain of the engagements reviewed, there was no documentation of the planning aspects relative to preliminary judgments about materiality levels for audit purposes, assessed level of control risk, and other audit planning considerations.

Recommendation—The firm should develop or obtain a planning program for use on each engagement.

Critique of Example 5:

- The finding does not indicate what the system does nor does not require regarding audit planning. Also, the finding does not indicate whether the reviewer believes sufficient planning procedures were performed on the engagements reviewed.

- A recommendation for a "canned" program or checklist is not particularly helpful as it is too specific. Rather, the recommendation should indicate that the firm should establish policies or procedures to ensure that planning considerations are documented, such as by developing or obtaining a planning checklist that deals with the areas cited. The recommendation might also note that proper planning may reduce audit time overall.

Suggested Rewording for Example 5:

Finding—The firm's quality control policies and procedures require documentation of audit planning considerations. The firm does not require the use of planning programs, checklists or other appropriate means of documenting such planning considerations. During our review, we noted there was no documentation of the planning aspects relative to preliminary judgments about materiality levels for audit purposes, assessed level of control risk, and other planning considerations. However, we were able to satisfy ourselves that, in each case, these areas were appropriately considered in determining the nature and extent of auditing procedures.

Recommendation—The firm should establish policies and procedures to ensure that planning considerations are documented, such as by obtaining or developing a planning checklist for use on audit engagements.

.106 Example 6:

Finding—The firm’s quality control policies and procedures require all working papers to be reviewed by someone at a higher, or at least the same, level.
Recommendation—The firm should reemphasize to its professional personnel the importance of reviews. This requirement could be added to the partner’s review checklists to ensure compliance.

Critique of Example 6:

- The finding does not indicate that the firm did not comply with its policy and, if it did not, whether this resulted in any engagement deficiencies.

Suggested Rewording for Example 6:

Finding—On several of the engagements reviewed, we noted that a review by a partner having no other responsibility for the engagement had not been performed as required by firm policy. On these engagements, we noticed that several disclosures required by generally accepted accounting principles were omitted from the financial statements. However, none of the missing disclosures were of such significance to make financial statements misleading.

Recommendation—The firm should comply with its policy of having a concurring partner review each engagement. To ensure compliance with this policy, the firm should require that the concurring owner initial the report docket before the report is issued.
.107 Appendix D
Guidance for Determining Whether a Finding Appeared in the Letter
Issued in Connection With a Prior Peer Review

Paragraph 23(o) states—
If any of the matters to be included in the letter of comments were included in the letter
issued in connection with the firm's previous peer review, this fact should be noted in
describing the matter.

A finding would be considered a repeat finding if the deficiencies noted during the current review are caused
by the same system of quality control weakness noted in the letter issued in connection with the reviewed
firm's prior peer review. To determine whether a finding is a repeat finding, the team captain should read
the prior letter of comments and letter of response and evaluate whether the actions outlined in the response
have been implemented. If the actions have been implemented and the same engagement deficiencies are
occurring (such as incomplete or omitted disclosure deficiencies), the team captain should, with the reviewed
firm's assistance, determine the weakness in the firm's system of quality control that could be causing the
deficiencies to continue to occur.

.108 Example 1:
The following finding, recommendation, and response was included in the firm's letter of comments on its
prior peer review.

Finding—The firm's quality control policies and procedures require the firm to complete a reporting and
disclosure checklist on all engagements. Our review discovered that these checklists were not completed on
all engagements. Disclosure deficiencies were noted in related party transactions and lease commitments.
None of these disclosures were considered significant departures from professional standards.

Recommendation—The firm should reemphasize its policies regarding the completion of a comprehensive
disclosure checklist on all accounting and auditing engagements. These checklists should be completed by
a member of the engagement team, reviewed by the engagement partner, and retained with the engagement
working papers.

Response—The firm has reemphasized its policies regarding the completion of a comprehensive disclosure
checklist on all accounting and auditing engagements. These checklists will be completed by a member of the
engagement team, reviewed by the engagement partner, and retained with the engagement working papers.

Results on Current Review
In the performance of the current year's review, the team captain noted the firm personnel are completing a
disclosure and reporting checklist on all accounting and auditing engagements. However, some disclosure
deficiencies are still noted in deferred taxes and concentration of credit risk.

Comparison of Prior and Current Deficiencies
In this example, the firm reinforced its policy on the use of a disclosure checklist in its letter of response.
Therefore, the team captain must look for other weaknesses in the firm's system of quality control that could
be causing the disclosure deficiencies to continue to occur.

The team captain noted that concentration of credit risk was covered by a recent pronouncement and that
deferred taxes was a complex area that often requires special training. Upon further investigation, the team
captain also found that the firm has taken the continuing education required by the state board of account-
cy and the AICPA, but most of the classes did not relate to accounting and auditing. Therefore, the team
captain concluded the cause of the disclosure deficiencies is a weakness in the firm's professional develop-
ment policies because those policies do not require that sufficient courses be taken on new accounting
pronouncements and on specialized areas. Since this was not noted in the prior review, the finding in the
current review would not be considered a repeat finding.
.109 Example 2:

The following finding, recommendation, and response was included in the firm's letter of comments on its prior peer review.

Finding—The firm's policies and procedures require consultation in situations that involve complex subject matters or newly issued technical pronouncements. During our review, we noted several instances where the firm researched the issues encountered but failed to consult with the individual designated in the quality control document. The firm issued several reports for a governmental entity, but did not include all required wording to comply with professional standards. The reporting deficiencies were not of such significance to make the auditor's report misleading.

Recommendation—The firm should reemphasize its policies regarding consultation as outlined in its quality control document. The firm should encourage its staff to consult with or use authoritative sources on complex or unusual matters.

Response—In a meeting held on October 15, 20XX, we reviewed our policies regarding consultation with all of our accounting and auditing staff and encouraged the staff to consult with or use authoritative sources on complex or unusual matters as specified by firm policy.

Results on Current Review

In the performance of the current year's review, the review team confirmed that the meeting of October 15, 20XX took place and that the firm's consultation policies were reviewed at that meeting. However, the review team also found that issues requiring consultation, such as a change in the method of recording inventory and a pooling of interests, were not reported appropriately.

Comparison of Prior and Current Deficiencies

Upon further research, the team captain discovered that the staff members researched these issues internally, but failed to consult with the partner designated as the consultant for the issues involved as required under the firm's system of quality control. Since the current engagement deficiencies are caused by the same weakness in the firm's system of quality control noted in the prior review, this finding would be considered a repeat finding in the current review.
.110 Appendix E

Case Studies on Writing Letter of Comments on System Reviews

Reviewers are often asked to revise letters of comments because they describe engagement deficiencies without identifying the deficiencies in the firm’s system of quality control that caused them. If the reviewer does not understand the underlying cause, he or she cannot make recommendations to the firm that will reduce the likelihood of the deficiencies recurring.

Because the same engagement deficiencies may come from completely different causes, reviewers should make sure findings and recommendations are based on careful thought and discussions with the partners of the firm about their underlying cause(s). To determine the underlying cause(s) of engagement deficiencies, a reviewer sometimes needs to expand testing in an area. This expanded testing will also allow the reviewer to determine whether a deficiency is isolated or pervasive.

In evaluating engagement deficiencies, the review team should consider all aspects of a firm’s system of quality control and try to determine the cause(s) of those deficiencies. In some cases the cause(s) of certain deficiencies from a quality control perspective may not be clear and may appear to be the result of a combination of factors. When the most likely cause(s) of the deficiencies cannot be readily identified, the review team should hold further discussions with the partners of the reviewed firm. Together, the reviewed firm and the review team will be able to identify the cause(s) of the deficiencies and develop a plan for reducing the likelihood of their recurrence.

The following case studies are designed to provide review teams with illustrations of the process of searching for the underlying cause(s) of engagement deficiencies.

.111 Case Study One

Facts About the Reviewed Firm: ABC, P.C. is a CPA firm with two partners, one manager, and four other professional staff. The manager has six years of experience and the other four professionals have from six months to two years of experience.

Prior Peer Review Findings: On the firm’s previous peer review, it received an unmodified report with a letter of comments citing a failure to comply with the firm’s policies and procedures for documenting analytical review procedures and the engagement team’s assessment of risk and materiality considerations. The reviewed firm’s responses to the recommendations of the review team appeared to address the deficiencies adequately and seemed comprehensive and feasible in the circumstances.

Current Peer Review Engagement Findings: The firm performed only one audit engagement subject to government auditing standards, a not-for-profit organization receiving federal awards and subject to the audit requirements set forth in Office of Management and Budget (OMB) Circular A-133. As required, this engagement was included in the scope of the peer review and the review team noted the following engagement deficiencies:

1. A third-party developed audit program for governmental engagements was included in the working papers, but it was not properly initialed or dated by engagement personnel at the completion of the procedures.

2. The firm did not issue a report on compliance with general requirements as required by OMB Circular A-133.

3. During the audit, the firm noted the client had made a nonqualifying expenditure and had failed to establish a drug-free workplace policy. These are areas of noncompliance with general requirements.

4. The firm issued a report on irregularities and illegal acts even though no such events were discovered during the performance of the audit.
During the discussions of the above matters with the manager on the engagement, the review team learned the following:

1. The firm borrowed a governmental audit program from another CPA firm in the same building, since this was the only engagement the reviewed firm performed pursuant to Government Auditing Standards.

2. The nonqualifying expenditure was a political contribution for $25 to a candidate running for a local office. Because one partner of the CPA firm served as treasurer of the candidate's political campaign, the manager decided the contribution did not need to be mentioned in a report.

Current Peer Review System Findings: While the manager agreed the proper reports had not been issued and indicated the engagement partner had pressured him into completing the engagement before the partner left on vacation, the review team explored further the underlying causes of the engagement deficiencies with the firm's owners. During this exploration, it learned that—

1. The engagement partner had no prior government auditing experience.

2. Because this was the only engagement performed by the firm under Government Auditing Standards and because the engagement partner was trying to keep the engagement costs to a minimum, only the manager on the engagement had taken any governmental accounting or auditing related continuing professional education, and that training only consisted of a four-hour self-study update on Government Auditing Standards.

3. Even though the firm's consultation policies require that an adequate up-to-date library be maintained, the firm's library did not contain a copy of the Government Auditing Standards, the Single Audit Act, OMB Circular A-133, or a third-party auditing or accounting manual for the performance of engagements pursuant to governmental auditing standards.

4. The firm accepted the audit engagement because one of the partners did not want to lose a business opportunity to a competitor and had indicated at a local chamber of commerce function that the firm performed audits of not-for-profit organizations receiving federal awards.

Possible Letter of Comments Item Resulting From This Case: Depending on the conclusions reached as to the underlying cause of the deficiencies, the related finding and recommendation included in the letter of comments might be one of the following:

**Engagement Performance**

*Finding*—The firm's policies and procedures for consultation require an adequate reference library be maintained as a resource for performing engagements in specialized areas and for solving problems identified on engagements. During our review, we noted that the firm did not have copies of various government auditing standards even though it had a client, the audit of which is subject to those standards. As a result, an inappropriate report was issued on irregularities and illegal acts and a report on compliance with general requirements was not issued. The firm has agreed to recall the inappropriate report on irregularities and illegal acts and issue the report on compliance with general requirements.

*Recommendation*—The firm should designate an individual within the firm to ensure that its library, or access to such a library, provides adequate resources for performing engagements in all areas in which the clients of the firm practice and for solving accounting and auditing problems identified on engagements.

**Personnel Management**

*Finding*—The firm’s policies require all professional staff to comply with applicable state board of accountancy and AICPA continuing professional education requirements. While the professional
staff was in compliance with this policy, sufficient courses were not taken in government accounting and auditing to comply with the Government Auditing Standards, a new practice area for the firm. As a result, an inappropriate report was issued on irregularities and illegal acts and a report on compliance with general requirements was not issued. The firm has agreed to recall the inappropriate report on irregularities and illegal acts and issue the report on compliance with general requirements.

Recommendation—The firm’s policies and procedures for professional development should be revised to ensure that firm personnel participate in training courses in all areas in which the firm practices and to monitor compliance with the professional education requirements outlined in the Government Auditing Standards.

Acceptance and Continuance of Clients and Engagements

Finding—The firm’s quality control policies and procedures require evaluation of prospective clients for approval prior to acceptance. During our review, we noted the firm accepted an engagement subject to Government Auditing Standards when it had no experience in that area and its library did not include materials related to such engagements. As a result, an inappropriate report was issued on irregularities and illegal acts and a report on compliance with general requirements was not issued. The firm has agreed to recall the inappropriate report on irregularities and illegal acts and issue the report on compliance with general requirements.

Recommendation—The firm should follow its quality control policies for client acceptance and not accept engagements in specialized industries unless it obtains the expertise necessary to perform that engagement in accordance with professional standards. This matter should be addressed in the firm’s monitoring procedures of its quality control policies.

.112 Case Study Two

Facts About the Reviewed Firm: XYZ & Associates is a CPA firm with three partners and four professional staff. Two of the partners perform primarily tax work, but they also perform engagements involving compilation reports on complete sets of financial statements (“full disclosure compilations”) and compilation reports on financial statements that omit substantially all disclosures required by generally accepted accounting principles or an other comprehensive basis of accounting (“compilations that omit disclosures”). The third partner, who also prepares tax returns and performs compilation engagements, is responsible for all of the firm’s audit and review engagements. Each owner is responsible for reviewing his or her own work.

The firm uses practice aids developed by a third-party provider and has identified in its quality control policies and procedures those forms and checklists that are required and those that are optional. The firm’s accounting and auditing practice consist of 15 audits and reviews for 2,100 hours and 65 compilations for 1,100 hours.

Prior Peer Review Findings: On the firm’s previous review, it received an unqualified report with a letter of comments citing the firm’s failure to carefully complete reporting and disclosure checklists and the incomplete or omitted disclosures noted on the engagements reviewed. (The specific omissions were not identified.)

Current Peer Review Engagement Findings: The review team noted the following deficiencies on the engagements reviewed:

1. On the two full disclosure compilation engagements selected for review, various disclosures were consistently omitted, including terms of operating leases, concentrations of credit risk relating to bank balances and trade accounts receivable, interest and income taxes paid when the indirect method was used for the cash flow statement, and noncash financing and investing activities for the cash flow statement.

2. On the audit and review engagements selected for review, only a few isolated and minor disclosures were missed.
Even though the omitted disclosures on the compilation engagements did not make any of the financial statements misleading, the review team believed the omissions reflected a weakness in the firm’s system of quality control for which the underlying cause needed to be identified. Since the review team believed further information was needed to identify the underlying cause, the team selected three additional full disclosure compilations — one for each partner. The review team found similar missing disclosures on the compilations performed by the two owners primarily responsible for the tax practice (who were also the partners on the two compilations initially reviewed) and no disclosure deficiencies on the compilation engagement performed by the partner responsible for the audit practice.

**Current Peer Review System Findings:** Based on a comparison of the original engagements selected for review and the additional engagements selected, the review team determined that the firm had complied with its policies and procedures requiring the completion of financial statement reporting and disclosure checklists on all engagements involving a report on a full set of financial statements. While a review of the completed reporting and disclosure checklists indicated each of the omitted disclosures was on the checklist (though some were referred to only briefly), the partners’ responses were inappropriately marked “N/A” or “yes.”

Based on the expanded scope and discussions with the partners, the review team was able to determine that the two partners primarily responsible for the tax practice were not reviewing the disclosure checklists carefully. The two partners also admitted they were not familiar with the disclosure requirements omitted and had not reviewed the disclosure checklists carefully because such review was time consuming. Even though all CPAs in the firm had met their state board of accountancy continuing professional education requirements, the review team noticed that these two partners had taken no training courses on accounting and auditing topics during the last three years.

**Possible Letter of Comments Item Resulting From This Case:** The review team determined the finding was not a repeat from the firm’s prior review because the underlying cause of the engagement deficiencies was different and, after discussing possible solutions with the firm’s owners to correct the weakness identified, decided the following engagement performance finding for supervision and recommendation should be included in the letter of comments:

**Engagement Performance**

**Finding**—The firm’s quality control policies and procedures require all accounting and auditing engagements to be properly supervised and reviewed. Our review noted that certain compilation engagements involving a complete set of financial statements were reviewed by members of the firm whose primary practice areas are not financial statement engagements and those individuals did not participate in sufficient accounting courses during the period. The financial statements for these engagements did not include all of the disclosures required by professional standards, particularly in concentrations of credit risk and cash flow statements. None of the missing disclosures were of such significance as to make the financial statements misleading.

**Recommendation**—The firm should revise its policies and procedures to require a preissuance review of full disclosure compiled financial statements by a qualified individual. In addition, all firm members responsible for reviewing financial statement engagements should periodically take appropriate courses on accounting and auditing topics.

If the review team had determined that the partners had participated in a reasonable number of training courses on accounting and auditing topics and observed during its review that the disclosure checklists on compilation engagements were haphazardly completed, the review team would probably have concluded the matter was a repeat finding from the prior review and the following engagement performance finding and recommendation would have been included in the letter of comments:

**Engagement Performance**

**Finding**—The firm’s quality control policies and procedures require accounting and auditing engagements to be properly supervised and reviewed. During our review, we noted on several full
disclosure compilation engagements that, although a partner reviewed the firm’s report and the accompanying financial statements, the disclosure checklist required by firm policy on such engagements was inappropriately completed. As a result, the financial statements of those engagements did not include all of the disclosures required by professional standards, particularly in concentrations of credit risk and cash flow statements. None of the missing disclosures were of such significance as to make the financial statements misleading. A similar finding was reported in the firm’s prior peer review.

Recommendation—The firm should revise its policies and procedures to require a preissuance review of full disclosure compiled financial statements by a designated and qualified individual. In addition, guidance should be provided to firm members reminding them to diligently complete all disclosure checklists.

.113 Case Study Three

Facts About the Reviewed Firm: LMNOP, S.C., is a CPA firm with three partners and three other professional staff with experience ranging from one to five years. Two of the three partners are responsible for one audit each, while all the partners are responsible for compilation and review services. All partners and staff are significantly involved in tax preparation and related services, which is a sizable portion of the firm’s practice.

Prior Peer Review Findings: This is the firm’s initial peer review.

Current Peer Review Engagement Findings: While performing the review, the review team noted lack of documentation for the following areas of planning on the audit engagement selected for review:

• consideration of matters affecting the industry.
• preliminary judgment of materiality.
• analytical review procedures.
• internal control structure.
• assessment of risk.

Although the planning area of the audit program was initialed and dated, few working papers existed to support the audit program steps. In addition, documentation of certain other areas of the audit was also deficient and little documentation existed for the partner’s review of the working papers.

After discussing the above findings with the partner and staff on the engagement and reviewing the firm’s written responses to the matter for further consideration forms detailing the procedures performed by the firm, the review team determined that, though the firm had performed inadequate testing of internal control, sufficient planning procedures had been performed in all other areas though they were not documented. The review team was also able to conclude that similar deficiencies would be encountered on the other audit performed by the firm.

Current Peer Review System Findings: The review team believes the firm’s quality control policies and procedures are adequately designed for a firm of its size and that the library is appropriate since it contains, among other things, appropriate auditing and accounting practice aids purchased from a third-party provider. When asked by the review team about the reason for the lack of documentation and the inadequate testing of internal control, the partner indicated that they had encountered time constraints when completing the audit.

Possible Letter of Comments Item Resulting From This Case: The review team concluded an engagement performance comment such as the following should be included in the letter of comments because the partner’s review of the engagement was not adequate to identify the documentation and performance deficiencies:
Engagement Performance

Finding—The firm’s policies and procedures require a partner to review audit working papers, financial statements, and auditors’ reports. However, the firm’s planning working papers do not include documentation of the firm’s preliminary judgement about materiality, assessment of risk, analytical review, procedures, and conditions requiring extensions or modification of tests. Through discussion with firm personnel, we were able to satisfy ourselves that appropriate planning procedures in the above areas had been performed. However, there was inadequate testing of the internal control structure in an instance where such testing was required. The firm has subsequently performed the omitted procedures to support the opinion issued on the engagement.

Recommendation—The partner responsible for the engagement should review and approve the engagement planning procedures. In addition, the partner should perform a more diligent review of the working papers, financial statements, and auditors’ reports, and should document that review in the working papers.

The nature of this letter of comments finding and recommendation would differ entirely if—

1. The review team had learned during further discussions with the professional staff on the audit engagements that the staff was uncertain about how to perform the procedures outlined in the planning area of the audit program and the working papers necessary to support the work performed; or

2. The firm had provided its partners and professional staff with a substantial number of training courses in the tax area during the last three years, but few courses in the accounting area and none in the audit area, and the partners had indicated that training courses in the audit area were not beneficial to the firm because the firm only performs the two audits to fill in during its slower periods.

If these conditions had been encountered, the review team might have determined that a more thorough review of the working papers by the partners would not necessarily have found the performance deficiencies or the need for additional planning documentation. As a result, the review team might have decided the letter of comments should contain a finding for a design deficiency in the firm’s system of quality control related to personnel management as follows:

Personnel Management

Finding—The firm’s quality control policies require all professional staff to participate in forty hours of continuing professional education each year. Even though the firm’s personnel met these requirements, the courses taken did not provide the firm’s personnel with sufficient information about auditing pronouncements and related procedures. As a result of inadequate training, on the audit engagement reviewed, the firm’s planning working papers did not include documentation of the firm’s preliminary judgments about materiality, assessment of risk, analytical review procedures, and conditions requiring extensions or modification of tests. In addition, inadequate testing of the internal control structure was performed in an instance where such testing was required. The firm has subsequently performed the omitted procedures to support the opinion issued on that engagement.

Recommendation—The firm should revise its quality control policies to require firm personnel to participate in an appropriate amount of professional development courses relating to all the areas in which they perform services. In addition, the firm should assign an individual the responsibility of monitoring the professional development courses taken during the year to ensure that appropriate courses have been taken in all of the areas in which the firm practices.

.114 Case Study Four

Facts About the Reviewed Firm: AEIO & U is a CPA firm with four partners and ten other professional staff. The firm’s practice is predominately accounting and auditing. While most professional staff perform some tax services, one partner of the firm performs only tax services and supervises two seniors and one manager who perform only tax work.
**Prior Peer Review Findings:** Each of the firm’s prior two reviews resulted in the issuance of an unmodified report without a letter of comments.

**Current Peer Review Engagement Findings:** While performing the review, the review team noted several engagements where the financial statements reported on by the firm did not include all of the disclosures required by generally accepted accounting principles. However, the deficiencies noted did not make the financial statements misleading. On each engagement on which disclosure deficiencies were noted, the firm’s required reporting and disclosure checklist was inappropriately completed. Disclosure deficiencies were noted on engagements supervised by all of the firm’s partners.

**Current Peer Review System Findings:** The review team believes the firm’s quality control policies and procedures were suitably designed and appropriately modified throughout the years for changes in the firm’s practice. The firm has adopted practice aids developed by a third-party provider for use on engagements and provided appropriate training to its accounting and auditing personnel on the use of the materials.

The firm belongs to an association of CPA firms and its annual inspection procedures were performed by qualified members of that association. However, inspection procedures were not performed during the year of the peer review.

Although it appears on the surface that the firm has not complied with its engagement performance policies and procedures, investigation of the underlying cause of the deficiencies by the review team revealed that—

1. The background information provided by the firm during the planning stage of the review stated the firm’s accounting and auditing hours grew by 15 percent while its total number of professional staff remained constant.

2. The firm’s recent growth occurred predominantly in the not-for-profit area, a firm specialty, according to interviews with partners of the firm involved in accounting and auditing. Rather than hire additional personnel during the firm’s busy season, the firm assigned the two tax seniors to supervise the work on a few audit and review engagements. The firm also assigned one audit senior responsibility for supervising the field work on two audits of large not-for-profit entities even though that individual had minimal experience auditing such entities.

When the scope of the review was expanded to review two additional engagements prepared by the staff discussed above, similar deficiencies were found.

**Possible Letter of Comments Item Resulting From This Case:** The review team concluded that the deficiencies noted during the review were the result of the assignment of inexperienced personnel to engagements and that the following finding and recommendation should be included in the letter of comments:

**Personnel Management**

**Finding**—The firm’s quality control policies and procedures require that the partners evaluate planning schedules to ensure that the personnel assigned to an engagement have sufficient experience or expertise to perform the work assigned to them. However, on some engagements reviewed, the personnel below the partner level did not appear to have adequate experience or expertise to handle their assigned tasks. As a result, we noted several instances where the financial statements reported on by the firm did not include all of the disclosures required by generally accepted accounting principles. However, none of the missing disclosures were of such significance to make the financial statements misleading.

**Recommendation**—The firm should carefully consider the degree of technical training and proficiency required in the circumstances prior to making personnel assignments. When it is necessary to assign a key role on an engagement to a person who does not have sufficient experience or expertise to handle all the work assigned, the partner in charge of the engagement should document how the engagement team will compensate for this deviation from firm policy.
.115 Case Study Five

(This is a case study pertaining to a large firm. It includes helpful guidance on dealing with merged and acquired practices regardless of the size firm.)

**Facts About the Reviewed Firm:** B & B is a four-office CPA firm with the following characteristics:

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<th>Office</th>
<th>Firm</th>
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<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Total</td>
</tr>
<tr>
<td>Partners</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Other Professionals</td>
<td>16</td>
<td>14</td>
<td>7</td>
<td>11</td>
</tr>
<tr>
<td>A&amp;A Hours</td>
<td>15,000</td>
<td>13,000</td>
<td>7,000</td>
<td>8,000</td>
</tr>
<tr>
<td>SEC Clients</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Yellow Book</td>
<td>3</td>
<td>2</td>
<td>1</td>
<td>2</td>
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</table>

The firm’s main office, office A, was founded in 1979. Offices B, C, and D were acquired through mergers in 1990, 1994, and 1998, respectively. The most recent merger was effective July 1, 1998, the start of the firm’s current peer review year. There were extensive financial negotiations prior to each merger and both sides performed limited due diligence procedures with respect to the quality of the other firm’s accounting and auditing and tax practices. During the peer review year ended June 30, 1999, approximately 45 percent of the firm’s charged hours were in accounting and auditing, approximately 45 percent in tax, and the remainder in consulting. The firm’s only SEC client is a mature, low risk company requiring about 400 hours to audit.

**Prior Peer Review Findings:** On the firm’s previous peer review, it received an unmodified report with a letter of comments citing failure to comply with the firm’s policies and procedures for documenting oral communications to audit committees required under SAS No. 61, *Communication With Audit Committees* (AICPA, Professional Standards, vol. 1, AU sec. 380).

**Current Peer Review Engagement Findings:** The peer review covered all the partners in offices A and D. The review of office A included five audits, one subject to *Government Auditing Standards* and the firm’s sole SEC client, two reviews, and one compilation. The peer review results in office A were excellent; the review team found only a few isolated and unrelated minor documentation deficiencies.

The review of office D included six audits (two for each partner), two reviews, and one compilation. On two audits the review team concluded the engagements did not comply with general accepted auditing standards in all material respects, and on one review engagements, the review team concluded the engagement did not comply with the performance standards of the *Statements on Standards for Accounting and Review Services* in all material respects. In addition, the work on all of the other engagements reviewed had deficiencies.

The three engagements that did not conform with professional standards in all materials respects resulted from the following:

1. On an audit of a manufacturing company only negative confirmation requests were circulated even though none of the three conditions for sending negative confirmations set forth in SAS No. 67, *The Confirmation Process* (AICPA, Professional Standards, vol. 1, AU sec. 330.20), were met.

2. No legal letter was sent on one audit even though outside counsel had been consulted during the year in connection with potential litigation. Management stated in its management representation letter that the company was not a plaintiff or a defendant in any litigation matters, and that it was not aware of any unasserted claims or assessments.

3. A management representation letter was not obtained on one review engagement.

The review team expanded its scope to look at the legal letters and confirmation procedures on five additional audits in office D. In each case, positive confirmations were used appropriately and legal letters were obtained.

**PRP §3400.115**

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except on one audit where the client did not have any legal counsel and management represented in writing that the company was not involved in any litigation and was not aware of any unasserted claims or assessments. The review team also looked at the client representation letters on three additional review engagements, and noted that an appropriate letter was obtained in each case.

The firm immediately performed, under the direction of the Director of Accounting and Auditing in office A, the necessary additional procedures on the three engagements and concluded that the financial statements and the firm’s report were appropriate in each case. The review team reviewed the additional work and agreed with the firm’s conclusions in each case.

Current Peer Review System Findings: The results of the firm’s inspection procedures performed during each of the two years between peer reviews were excellent and covered the work of all partners. The firm does not perform inspection procedures in a peer review year.

After extensive discussions with firm management in an attempt to discover the reasons for the poor quality work in office D, the review team learned that—

1. The firm does not have any formal written policies for assessing the quality of the accounting and auditing practice of a potential merger or acquisition candidate prior to a merger or acquisition.

2. The merger negotiations focused almost exclusively on financial matters, and the firm performed limited due diligence procedures with respect to the quality of the work of the firm that became office D.

3. The only training office D personnel received regarding the firm’s policies and procedures was a two-hour session four days after the effective date of the merger, and that session primarily covered administrative matters.

4. There was no interchange of personnel on engagements between offices A, B, and C on the one hand and office D on the other.

5. No one from the three previously existing offices of the firm performed any preissuance reviews of the working papers, financial statements, or reports issued by office D from the time of the merger until the commencement of the peer review.

Possible Letter of Comments Item Resulting From This Case: Three of the nine engagements reviewed from the recently merged-in office D were not in conformity with professional standards and additional procedures had to be performed on them. The engagement deficiencies resulted from the lack of adequate policies for the evaluation of potential merger candidates and the failure to adequately train staff from the merged practice. If the review team concludes that an unmodified peer review report can be issued, the letter of comments might include the following finding and recommendation in engagement performance:

Engagement Performance

Finding—The firm has very limited quality control policies and procedures for assessing the quality of the accounting and auditing practice of a potential merger or acquisition candidate and for providing reasonable assurance that personnel from a merged or acquired practice will conform with professional standards, and comply with firm policies and procedures. The firm merged with a smaller firm at the beginning of the peer review year. The peer review noted three instances where engagements in the merged office did not conform with generally accepted auditing standards or the Statements on Standards for Accounting and Review Services. In each case, the omitted procedures were performed promptly, and the client’s financial statements and the firm’s report were deemed to be appropriate.

Recommendation—We recommend that the firm establish written quality control policies and procedures to provide reasonable assurance that personnel from accounting and auditing practices acquired by merger or acquisition will conform with professional standards, and comply with firm policies and procedures. Such policies and procedures should include—
1. Performing appropriate due diligence procedures, including reviewing a sample of the potential merger or acquisition candidate’s accounting and auditing engagements prior to the merger or acquisition.

2. Providing training programs for the personnel from merged or acquired practices that cover the firm’s policies and procedures for accounting and auditing engagements, and where necessary, professional standards.

3. Assigning personnel from existing offices to accounting and auditing engagements performed by personnel from the merged or acquired practice, and vice versa.

4. Requiring the firm’s Director of Accounting and Auditing or a designee to perform detailed preissuance reviews of the working papers, financial statements, and reports for some or all of the merged office’s accounting and auditing engagements.

.16 Case Study Six

Facts About the Reviewed Firm: A and B is a CPA firm with four partners and sixteen professional staff.

Prior Peer Review Findings: The firm’s prior peer review was unmodified without a letter of comment.

Current Peer Review Engagement Findings: During the review, the review team noted the reviewed firm issued a review report which included a final paragraph stating a lack of independence. The engagement file included a Review Engagement Work Program that contained a step related to independence and cautioned that a review report could not be issued if the firm was not independent.

Current Peer Review System Findings: After further investigation the review team learned that—

1. The partner responsible for the engagement signed off as reviewing the engagement, but performed only a cursory review of the staff’s work.

2. The staff member on the engagement had been with the firm three years, but worked almost exclusively in the tax area.

3. The staff member had taken only ten hours of continuing education in accounting and auditing subjects during the past three years.

4. The other work supervised by this partner contained no major deficiencies. However, the quality of the partner’s work was not up to the same standard as that of the other partners in the firm.

Because the specific underlying cause of the deficiency had not been determined, the review team held extensive discussions with the firm’s partners and, as a result, concluded that—

1. The firm had adequate policies and procedures for independence, integrity, and objectivity. The firm communicated its policies and procedures to the staff, independence confirmations were obtained and all questions resolved. All other engagements where the firm noted a lack of independence were compilation engagements.

2. The firm had adequate policies and procedures for assigning personnel to engagements. The firm attempts to use tax staff on low-risk audit and accounting engagements to aid in their overall development and assigns an audit partner or audit manager to supervise their work.

3. The firm had adequate policies and procedures for personnel management for professional development. All staff were in compliance with the professional development requirement. However, the tax staff generally had less than sixteen hours of professional education in accounting and auditing over a three-year period.
4. The failure on the review engagement was due to a lack of supervision by the partner even though the firm had adequate engagement performance policies and procedures for supervision.

Possible Letter of Comments Item Resulting From This Case: The review team and firm agreed that the following finding and recommendation were appropriate:

Engagement Performance

Finding—The firm’s quality control policies and procedures require preparation and completion of work programs that appropriately request the preparer to affirm the firm’s independence. However, the firm issued a review report stating a lack of independence, which is not in accordance with professional standards. The work program was inappropriately signed off, and the review process failed to note this error. The firm has recalled the review report and issued a compilation report.

Recommendation—The firm has adequate policies and procedures for engagement performance. However, a more thorough review of the work program by the staff and the partner would have prevented the violation of professional standards. We recommend that the firm hold in-house training sessions to review the work programs and checklists currently utilized. The training session should be attended by all personnel involved in the accounting and auditing process.

[The next page is 3501.]
Notice to Readers

This guide has been developed by the AICPA Peer Review Board to provide peer reviewers with additional guidance on preparing letters of comments on peer reviews. The examples included in this section are for illustrative purposes only. Actual letters of comments should be prepared based on the specific facts and circumstances.

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<td>B. Checklist for Reviewing Drafts of Letters of Comments on an Engagement Review</td>
<td>.09</td>
</tr>
</tbody>
</table>
Introduction

.01 The criteria for including an item in a letter of comments on an engagement review is whether there are any deficiencies on engagements that were selected for review as they relate to nonconformity with professional standards, including the Statements on Standards for Accounting and Review Services (SSARS), and the Statements on Standards for Attestation Engagements (SSAEs).

Objectives

.02 The major objectives of the letter are to—

a. Report matters (including the matters, if any, that resulted in a modified or adverse report) that the reviewer believes are departures from professional standards that should be considered by the firm in evaluating the quality control policies and procedures over its accounting practice.

b. Provide reasonably detailed descriptions of the findings and recommendations based on a review of selected engagements.

c. Provide the firm with recommendations to assist the firm in implementing policies and procedures relevant to the requirements of professional standards in the performance and reporting of accounting engagements.

General Guidelines

.03 The letter should be addressed, dated, and signed in the same manner as the report. It should include—

a. A reference to the report and indicating if it was modified or adverse.

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

c. The reviewer’s findings and recommendations.

Matters to Be Included in the Letter of Comments

.04 The letter of comments should include comments regarding departures from professional standards on engagements selected for review. This should include departures that are significant, as well as those departures that are not deemed to be significant but that should be considered by the firm in evaluating the quality control policies and procedures over its accounting practice. In addition, if a modified or adverse report is issued because of the significance of the departures from professional standards, the letter should include a section on the matters that resulted in the modification. This section would ordinarily include an elaboration of the findings discussed in the modifying paragraph of the report.

.05 In order to give appropriate consideration to the evidence obtained on the engagements selected for review, and to reach conclusions regarding the matters to be included in the letter of comments, the reviewer must understand professional standards, but not limited to the following:

• Generally accepted accounting principles (GAAP).

• Other comprehensive basis of accounting other than GAAP (OCBOA).

• Statements on Standards for Accounting and Review Services (SSARS).

• Statements on Standards for Attestation Standards (SSAEs).
.06 The findings on the engagements selected for review should be based on professional standards and not on personal preferences. Reviewers are occasionally surprised to find that some "generally accepted" professional standards are, in reality, only a preferred treatment by their firm.

.07 If any of the matters to be included in the letter of comments were included in the letter issued in connection with the firm's previous review, that fact should ordinarily be noted. The letter may also include comments concerning actions taken by the reviewed firm.
.08 Appendix A

Sample Letter of Comments on an Engagement Review for the AICPA Peer Review Program

[AICPA or other appropriate letterhead]

August 31, 20

[Should correspond with date of report]

To the Partners (or 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 Able, Baker, & Co. (the firm) for the year ended June 30, 20__, and have issued our report thereon dated August 31, 20__ (that was modified as described therein)*. That report should be read in conjunction with the comments in this letter.

Matters That Resulted in a Modified Report'

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

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

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

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

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

- Failure to disclose material intercompany transactions
- Failure to appropriately recognize revenue
- Failure to present financial statements in a proper format
- Failure to 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.

* Include this phrase only when the report is modified or adverse and tailor it to fit the circumstances.
**Recommendation**—We recommend that the firm establish a means of ensuring its conformity with professional standards on accounting engagements. Such means might include continuing professional education in accounting and reporting, use of a reporting and disclosure checklist on accounting engagements, or a "cold" review of reports and financial statements prior to issuance.

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

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

5. **Finding**—During our review, we noted that the firm failed to obtain a management representation letter on a review engagement. Further, the engagement working papers failed to document certain matters covered in the accountant’s inquiry and analytical procedures as required by professional standards.

**Recommendation**—The firm should review and implement the requirements of professional standards for obtaining management 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.

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

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

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

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

**Recommendation**—The firm should review the professional standards governing the titles to be used when 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.

```
Brown & Co.  [for review by a firm]

or

William Brown
Reviewer                  [for review by an
association spon-
sored or commit-
tee appointed review team]
```

*Include this phrase only when the report is modified or adverse and tailor it to fit the circumstances.*

AICPA Peer Review Program Manual

PRP §3500.08
### Appendix B

#### Checklist for Reviewing Drafts of Letters of Comments on an Engagement Review

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No*</th>
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<tr>
<td>1.</td>
<td>Does the letter of comments (LOC) conform with the standard LOC included in the applicable standards?</td>
<td></td>
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<tr>
<td>2.</td>
<td>If the report is modified, have the comments been segregated appropriately in the section entitled “Matters that Resulted in a Modified (Adverse) Report”?</td>
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<tr>
<td>3.</td>
<td>Are findings written with an engagement rather than a system orientation?</td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td>Have you avoided identifying, by name or otherwise, specific engagements, individuals, or offices?</td>
<td></td>
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<tr>
<td>5.</td>
<td>Are comments written in a succinct, but complete, manner (without excessive details)?</td>
<td></td>
</tr>
<tr>
<td>6.</td>
<td>Are the findings clearly understandable to someone not familiar with the specific engagement finding?</td>
<td></td>
</tr>
<tr>
<td>7.</td>
<td>Are findings written in a specific enough manner so that the comment will not automatically be repeated on the next review?</td>
<td></td>
</tr>
<tr>
<td>8.</td>
<td>Have personal preference items been excluded from the letter?</td>
<td></td>
</tr>
<tr>
<td>9.</td>
<td>Is the letter of comments free of all references to specific technical standards?</td>
<td></td>
</tr>
<tr>
<td>10.</td>
<td>Have third-party practice aids been referred to in general terms?</td>
<td></td>
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<tr>
<td>11.</td>
<td>Are repeat comments clearly identified?</td>
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* All “no” answers should be resolved before the letter of comments is finalized.

[The next page is 3601.]
### PRP Section 3600

**Guidance for Writing Letters on Monitoring Actions by Outside Parties**

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Introduction

.01 A peer review report, letter of comments, and the firm’s response to all matters discussed in the report and letter of comments (or just a report on a report review) may be accepted by a report acceptance body with the understanding that the firm will allow the team captain or another party acceptable to the committee (herein after referred to collectively as “outside party”) to monitor the implementation of certain corrective actions (“monitoring procedures”) taken by the firm. In such situations, the reviewed firm will have to engage an individual outside of the firm to perform those monitoring procedures and to allow the outside party to communicate the conclusions reached during the performance of the procedures to the report acceptance body.

.02 The purpose of these guidelines is to provide assistance to outside parties engaged to monitor one or more corrective actions taken by a reviewed firm as a result of a peer review—other than an accelerated peer review. If the report acceptance body requires the reviewed firm to have an accelerated peer review, or the firm elects to have such an accelerated review as an alternative to completing other actions required by the report acceptance body, then the reviewed firm and the reviewer should adhere to the “Standards for Performing and Reporting on Peer Reviews” (see PRP section 3100).

Objectives

.03 The objective of the monitoring actions is to determine whether the firm took one or more actions it agreed to as a result of a peer review and is not intended to be a substitute or a replacement for a full scope peer review. While the procedures performed may not be sufficient to enable the outside party to express an opinion on whether the corrective action achieved the goal for which it was designed or whether the action has been implemented in all required situations, they should be sufficient to provide the outside party with reasonable assurance about whether the firm implemented the action(s) to which it agreed in the situations tested.

.04 At the conclusion of the monitoring procedures, the outside party should issue a letter that describes the procedures performed and the conclusions reached as a result of those procedures. The letter should be sufficiently comprehensive—but concise—to enable the report acceptance body to conclude on the reviewed firm’s implementation of the corrective action(s) being monitored. Since the letter will not be included in a public file, it should be written as a private communication between the outside party and the report acceptance body. However, the outside party should send the reviewed firm a copy of the communication.

General Guidelines

.05 The outside party should obtain a clear understanding of the corrective actions agreed to by the firm and the monitoring procedures that need to be performed by obtaining a copy of the firm’s most recent peer review report, the related letter of comments, the firm’s letter of response, and the acceptance letter describing the monitoring actions required by the report acceptance body.

.06 The outside party should design and perform appropriate procedures to provide him or her with sufficient information to evaluate the reviewed firm’s compliance with the corrective action(s) being monitored. In certain circumstances, the outside party may wish to confirm the appropriateness of the procedures to be performed with the staff of the entity administering the review.

.07 The outside party should summarize the procedures performed and the conclusions reached as a result of those procedures, and discuss those conclusions with the reviewed firm. During the discussions, the outside party should ask whether the firm plans to implement further corrective actions to address any deficiencies noted during the monitoring procedures.
The outside party should send a letter to the report acceptance body describing the procedures performed and conclusions reached. The letter should be issued on the letterhead of the outside party's firm, addressed to the report acceptance body with a copy to the reviewed firm, and include the following elements—

a. A description of the monitoring procedures required by the report acceptance body.

b. A description of the representations made by the reviewed firm regarding the corrective actions taken by the firm since its most recent peer review.

c. A description of the procedures performed by the outside party.

d. A summary of the outside party's findings, including a description of any representations made by the reviewed firm regarding planned corrective actions and the outside party's comments on the appropriateness of those actions. The outside party may consider recommending additional corrective actions or monitoring procedures if he or she believes the findings reveal continued weaknesses in the reviewed firm's quality control system.

e. A statement that the letter is intended for limited distribution to the report acceptance body and the reviewed firm, and is not intended as a substitute or replacement for the peer review documents issued by the review team on the firm's peer review.

Illustrative Letters

The following letters are for illustrative purposes only. It is recommended, but not required, that the outside party adopt the form of these letters and tailor them to describe the conclusions reached based on the specific procedures performed.
.10 Exhibit A

Sample Letter on an Outside Party's Revisit

[Outside Party's Firm Letterhead]  

[Name and Address of the Report Acceptance Body]  

September 13, 20XX

Dear Committee Members:

This letter is written to assist [Reviewed Firm's Name] in complying with certain actions the firm voluntarily agreed to take in connection with the [Name of the Report Acceptance Body]'s acceptance of its 20XX peer review report, letter of comments, and response thereto.

The [Name of the Report Acceptance Body] accepted the firm's 20XX peer review documents with the understanding that the firm agreed to permit an outside party, acceptable to the Committee chair, to:

a. Review the planning for the firm's 20XX inspection program in advance.

b. Revisit the firm at the end of its 20XX inspection to review the findings (with emphasis on those items noted in the letter of comments) and the corrective actions taken on the findings noted, and

c. Provide a written communication on the firm's inspection to the Committee by September 30, 20XX.

Prior to the firm performing its 20XX inspection, I performed the following procedures:

a. Reviewed a copy of the firm's 20XX peer review report, the accompanying letter of comments and the firm's response thereto, and the acceptance letter describing the required actions.

b. Reviewed the firm's inspection planning documentation.

I revisited the firm on September 9, 20XX, after the completion of its 20XX inspection. During that revisit, I performed the following procedures—

a. Discussed the corrective actions described in its letter of response with the firm to determine if the actions have been fully implemented.

b. Reviewed the firm's inspection report and underlying documentation, including the engagement review checklists prepared during the inspection.

c. Reviewed the working papers of selected engagements included in the inspection and any changes in the firm's quality control materials to evaluate the effectiveness of the inspection and the corrective actions implemented by the firm as a result of its 20XX peer review.

d. Discussed the inspection findings and corrective action plan with the firm and evaluated the feasibility of the firm achieving its plan.

Listed below are the results of the procedures I performed and a description of the firm's representations regarding planned corrective actions.

Letter of Comment Finding No. 1

This finding related to the firm's failure to issue accountants' compilation reports on monthly computer generated financial statements. The firm's letter of response stated that the firm would revise its quality control policies and procedures to require the issuance of compilation reports with the accompanying financial statements.

Revisit Results

The firm adopted a policy requiring the partners to ensure that an accountant's report accompanies compiled financial statements when those statements are issued to the client. The inspection results indicated that
compilation reports were issued with monthly compiled financial statements. However, some of the reports did not disclose that the cash basis of accounting was used. This deficiency resulted because the firm obtained a copy of the standard compilation report from the reviewer and used it on all of its compiled financial statements. The firm was not familiar with cash basis reporting on SSARS engagements and did not have any third-party reference material. In addition, the firm had not taken any training courses relating to SSARS engagements.

Planned Corrective Actions
The firm implemented a reviewer checklist to provide assurance that the proper type of compilation report will be issued and its policies and procedures were revised to require completion of this checklist. In addition, the firm represented that all personnel involved in preparing and/or reviewing compilation engagements will take 8 hours of CPE in SSARS within the next month. To assess the effectiveness of using the new checklist, the firm represented that its plans to review a sample of compilation reports issued subsequent to the implementation of the checklist.

Letter of Comment Finding No. 2
The firm performed an audit of a defined benefit pension plan subject to ERISA requirements. The firm failed to test investments and did not obtain a representation letter from its client or the plan administrator. The firm subsequently obtained the missing representation letter and performed tests of the investments which I reviewed before the firm’s peer review documents were presented to the Committee for acceptance. The firm’s letter of response indicated it would obtain an industry specific audit program and update its library to include the AICPA Audit and Accounting Guide for Audits of Employee Benefit Plans.

Revisit Results
The firm did not obtain a copy of the ERISA Audit and Accounting Guide and my review of the ERISA audit showed an industry specific audit program was not obtained and used by the firm on the audit. In addition, some key confirmations relating to investment balances were not obtained and alternative procedures were not performed. The partner with responsibility for the engagement indicated that the firm obtained a large new client that took up a lot of time, and as a result, the staff rushed through the ERISA audit using the prior year’s working papers.

Planned Corrective Actions
The firm represented that the ERISA Audit and Accounting Guide and the ERISA industry specific audit program have now been ordered from the AICPA. The firm has subsequently obtained confirmations and/or performed alternative procedures to substantiate the investment balances. I have reviewed the additional procedures performed and they are appropriate. In addition, the firm represented that it plans to send its audit staff responsible for conducting ERISA engagements to 8 hours of training in ERISA audits.

Letter of Comment Finding No. 3
The firm performed several audits subject to the requirements of the Single Audit Act. The firm failed to issue the required reports on internal controls and compliance with laws and regulations, did not document its consideration and testing of the internal control structure, and did not perform the necessary procedures to test compliance with laws and regulations. In addition, the partner responsible for the engagement was not in compliance with the “Yellow Book” CPE requirement. The firm performed the omitted audit procedures and issued the missing reports which I reviewed prior to the Committee’s acceptance of the firm’s peer review documents. The firm’s letter of response stated that the partner would take the necessary CPE.

Revisit Results
My review of a Single Audit Act engagement performed subsequent to the firm’s peer review noted that all required reports were issued on the engagement and that the owner participated in the necessary CPE.
However, I was unable to determine the extent of the testing for compliance with laws and regulations because of significant documentation deficiencies. In addition, documentation deficiencies continued to exist with respect to considering and testing the entity's internal control structure and testing for compliance with the requirements applicable to the federal financial assistance programs.

**Planned Corrective Actions**

The firm represented that it plans to conduct a training session for partners and staff during the next month on documentation of audit procedures performed. In addition, the firm represented that it will instruct owners to focus on documentation during their review process and will amend the partner review checklist to add this focus.

**Summary**

The firm's inspection appears to have been comprehensive, suitably designed and adequately documented, and the results appear to have been effectively communicated to professional personnel. However, I believe the Committee should further monitor the firm's corrective actions since the results of these procedures revealed that the firm has failed to adequately implement the corrective actions described in its letter of response. I recommend that the Committee consider requiring the firm to hire an outside third party, who is sufficiently experienced in the industries in which the firm's clients operate, to perform a preissuance review of all the firm's audit engagements in specialized industries.

This letter is intended solely for the information and use of the [Name of the Report Acceptance Body] and the partners of [Reviewed Firm's Name], and is not intended as a substitute or replacement for the peer review documents issued by the review team on the firm's 20XX peer review.

Sincerely,

[Outside Party's Signature]

cc: [Reviewed Firm's Name]
.11 Exhibit B

Sample Letter on an Outside Party's Review of a Subsequent Engagement

[Outside Party's Firm Letterhead]

July 21, 20XX

[Name and Address of the Report Acceptance Body]

Dear Committee Members:

This letter is written to assist [Reviewed Firm's Name] in complying with certain actions the firm voluntarily agreed to take in connection with the [Name of the Report Acceptance Body]'s acceptance of its 20XX peer review report, letter of comments, and response thereto.

The [Name of the Report Acceptance Body] accepted the firm's 20XX peer review documents with the understanding that the firm agreed to permit an outside party, acceptable to the Committee chair, to review the report, financial statements, and working papers of an audit engagement issued subsequent to the firm's peer review, and communicate to the Committee in writing on the results of that review by July 31, 20XX.

I performed the following procedures—

a. Reviewed a copy of the firm's 20XX peer review report, the accompanying letter of comments and the firm's response thereto, and the acceptance letter describing the required actions.

b. Reviewed the report, financial statements, and working papers for a not-for-profit audit engagement issued subsequent to the peer review to determine whether the engagement was performed in accordance with professional standards in all material respects. I documented my review using the AICPA "Checklist for Review of Audit Engagements of Not-for-Profit Organizations."

c. Discussed with the firm the findings and the corrective action plan, and evaluated the feasibility of the firm achieving its plan.

While performing the above procedures, I found some minor incomplete disclosures in the areas of promises to give and collections. The firm's letter of comments on the most recent peer review also cited disclosure deficiencies; however, they were in other areas. The firm represented that it will conduct a "refresher" training session on disclosures for all owners and professional staff and also will instruct owners to focus on disclosures during their review process.

Because only minor deficiencies were found on the engagement I reviewed, I believe no further monitoring of the firm by the [Name of the Report Acceptance Body] is necessary at this time.

This letter is intended solely for the information and use of the [Name of the Report Acceptance Body] and the owners of [Reviewed Firm's Name], and is not intended as a substitute or replacement for the peer review documents issued by the review team on the firm's 20XX peer review.

Sincerely,

[Outside Party's Signature]

cc: [Reviewed Firm's Name]

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PRP Section 3900

Additional Guidance for Performing and Reporting on Peer Reviews

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AICPA Peer Review Program Manual
General Guidelines

.01 Additional guidance on peer review issues can be located on the AICPA Web-Site at http://www.aicpa.org/members/div/practmon/index.htm. Currently, this section of the web-site contains guidance on the following:

- Planning Inquiries
- Peer Review Risk Assessment
- Engagements that Do Not Conform With Professional Standards
- Illegal Acts
- Isolated Deficiencies
- Guidance on Implementing SQCS Nos. 2 and 3
- Handling of ERISA Engagement Deficiencies as They Relate to Corrective Actions Placed on Reviewed Firms
- Handling Documentation Deficiencies
- Personal Financial Statements
- Medicare Cost Reports
- Alternative Practice Structures
- Federal Deposit Insurance Act
- Government Audits
- Working Paper Retention Policies
- Recent Industry Experience for Peer Reviewers
- Due Dates, Extensions and Year Ends
- Engagement Selection for Report Reviews under the Current Standards/Guidelines
- Letter of Response
- Review Requirements for Joint Ventures
- Mergers and Dissolutions of Firms
- Special Rules for Resignation
- Reinstatement for Firms Dropped or Terminated from the Peer Review Program

.02 Other issues will be posted on the AICPA Web-Site as needed.
PRP Section 4000  
System Reviews

In performing peer reviews, review teams must complete all relevant programs and checklists issued by the AICPA Peer Review Board in a professional manner. Failure to do so may create a presumption that the review has not been performed in conformity with the standards governing the program.

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4500 Guidelines for Review of Quality Control Policies and Procedures for Firms With Two or More Professional Staff
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4700 Summary Review Memorandum—System Reviews
4800 Team Captain Checklist—System Reviews
4900 Instructions for Use of Matter for Further Consideration Forms—System Reviews

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PRP Section 4100

Instructions to Firms Having a System Review

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General

.01 A system review is required for all firms that perform engagements under the Statements on Auditing Standards (SASs), Government Auditing Standards or examinations of prospective financial statements under the Statements on Standards for Attestation Engagements (SSAEs) because of the public interest in the quality of such engagements and the importance to the accounting profession of maintaining the quality of those services.

.02 System reviews are administered by state CPA societies that elect to participate in the program. Generally, the appropriate society will contact your firm before the beginning of the calendar year in which your firm is scheduled to have a system review to begin to make arrangements for the conduct of the review. Well before then, you should have read the applicable sections of Standards for Performing and Reporting on Peer Reviews (the Standards) issued by the AICPA Peer Review Board, as well as these instructions and the quality control policies and procedures questionnaire and review guidelines applicable to your size firm.

.03 These instructions have been designed for reviews conducted by committee-appointed review teams. However, they should be helpful in reviews conducted by firms or with the assistance of an association of CPA firms. Also, completing the procedures listed under “Prior to the Review” should expedite the conduct of the review.

.04 It is the reviewed firm’s responsibility to be certain that the quality control policies and procedures in effect for the period covered by the review have provided the firm with reasonable assurance that it has met its responsibility to provide accounting and auditing services that conform with professional standards. Also, firms should carefully evaluate the effectiveness of the way in which quality control policies and procedures are communicated to all professional personnel and should determine that appropriate action is taken when monitoring or other procedures reveal design or compliance deficiencies.

Prior to the Review

.05 Identify the individual—usually a partner—who will be responsible for acting as a liaison with the review team.

.06 Review and sign the engagement letter for the review.

.07 Agree with the team captain on the date the review will commence, the 12-month period to be covered, and the anticipated exit conference date. The firm is expected to maintain the same year end on subsequent reviews. However, circumstances may arise that necessitate the firm changing its peer review year end. In such a situation, the firm may do so with the prior approval of the state CPA society administering its review. Ordinarily the review should be conducted within three to five months following the end of the year to be reviewed. The firm and team captain should schedule the review to begin sufficiently ahead of the firm’s due date to allow time for submission of all peer review documents to the state CPA society administering the review by the firm’s due date.

.08 Submit the following to the team captain as soon as possible:

a. A completed “Quality Control Policies and Procedures Questionnaire.” (There is one form of questionnaire for sole practitioners without professional staff and one for all other firms.)

b. Relevant manuals, checklists, etc., if practicable.

c. A list of accounting and auditing engagements prepared in the form shown in Appendix A to these instructions. The list should include all engagements with periods ending during the year under review and covered by the definition of an accounting and auditing practice for peer review purposes. See exhibit 1 for a copy of that definition.
d. A list of the firm’s professional personnel, showing name, position, and years of experience (i) with the firm and (ii) in total.

e. Other information requested by the team captain.

.09 Based on that information, the team captain will make a preliminary advance selection of engagements for review. Complete profile sheets on those engagements and assemble all working papers, including the permanent files and reports, before the review begins.

.10 Review the applicable guidelines for review of quality control policies and procedures that will be followed by the team captain and make sure documentation that the team captain will ask for will be readily available. Examples of such documentation are noted in the following list, which is not all-inclusive:

a. Independence confirmations, documentation of independence of correspondents, and documentation supporting the resolution of independence questions

b. Personnel files
c. CPE records
d. Documentation regarding consultations with outside parties
e. Dues paid to the AICPA

During the Review

.11 Make sure firm personnel will be available for discussion with the reviewer(s) as necessary. The reviewers will endeavor to have these discussions and interviews without disrupting the firm’s operations.

.12 The team captain will inform the firm of any deficiencies noted during the peer review on a form entitled, “Matter for Further Consideration” (MFC), and ask your firm to respond. Typically, the team captain will provide these forms as the review progresses so that the firm is fully prepared to respond to all issues by the exit conference. The firm should provide a thorough written response to those forms to avoid any misunderstanding about its quality control policies and procedures or the circumstances of the individual engagement.

.13 Arrange for appropriate partners and staff to attend the exit conference. If the firm disagrees with any of the reviewer’s findings, those differences should be discussed as they arise. Any differences of opinion that have not been previously discussed should be covered during the exit conference.

After the Review

.14 Obtain the report and letter of comments, if any, from the team captain. These documents should be delivered to the firm within 30 days of the exit conference date or by the firm’s peer review due date, whichever date is earlier.

.15 Prepare a letter of response to the report and letter of comments and submit all three documents to the administering entity within 30 days of the date the report and letter of comments are received from the team captain or by the firm’s peer review due date, whichever date is earlier. The firm should submit a draft of its letter of response to the team captain for review and comment prior to submitting the response to the administering entity. As indicated in the 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.
.16 The state CPA society administering the review will not make the report on the review available to the public. The firm itself may do so, if it wishes. However, the firm should not publicize the results of the review or distribute copies of the report to its personnel, clients, or others until it has been advised that it has been accepted by the administering entity.

.17 After the peer review documents are accepted on a review of a member of the PCPS, a copy of the report, letter of comments, and the reviewed firm’s response thereto, and the letter indicating that the committee has accepted the report will be forwarded to the public files of the Division for CPA Firms and will be retained in those files until acceptance of the report on the subsequent review.

Disagreements

.18 Because peer review is a subjective process and professional standards require the use of professional judgment, there may be differences of opinion between the reviewed firm and the team captain as to whether an engagement deficiency exists. Most disagreements can and should be resolved before the exit conference. In responding to findings involving technical issues the firm should not automatically assume the team captain’s interpretation of the standards is the correct one. The firm should ask the team captain to cite the applicable section of the professional standards that supports his or her conclusion and read the applicable section to verify that the comment is applicable to the particular situation. If necessary, the firm should consult with the state CPA society administering the peer review, a knowledgeable outsider, or the AICPA Technical or Ethics hotline.

.19 The reviewed firm should respond in writing to the specific comments on the response section of the “Matter for Further Consideration” (MFC) form. Since MFC forms are read by the state CPA society's technical reviewer and possibly by members of acceptance committees, the firm’s response should present the reasons for disagreement or the circumstances that caused the deficiency. Such a response may not only cause the team captain to change his or her mind, but may cause the acceptance committee to question the significance of the deficiency.

.20 In those rare instances where the matter cannot be resolved, the reviewed firm should respond to the letter of comments by addressing each deficiency noted and citing the section of the professional standards that supports its views. The state CPA society peer review committee will attempt to resolve the disagreement.
Exhibit 1
DEFINITION OF AN ACCOUNTING AND AUDITING PRACTICE FOR PEER REVIEW PURPOSES

Paragraph 4 of the AICPA Standards for Performing and Reporting on Peer Reviews states:

An accounting and auditing practice for the purposes of the AICPA Standards for Performing and Reporting on Peer Reviews is defined as all engagements covered by Statements on Auditing Standards (SASs), Statements on Standards for Accounting and Review Services (SSARS)\(^1\), Statements on Standards for Attestation Engagements (SSAEs) Government Auditing Standards (the Yellow Book) issued by the U.S. General Accounting Office (GAO).

\(^1\) 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.
### Appendix A

**AN ILLUSTRATION OF A LIST OF ACCOUNTING AND AUDITING CLIENTS**

<table>
<thead>
<tr>
<th>Client Code</th>
<th>Period Covered</th>
<th>Level of Service Provided</th>
<th>Initial Eng.</th>
<th>Industry**</th>
<th>Name of Partner</th>
<th>Approx. Total Hours***</th>
</tr>
</thead>
<tbody>
<tr>
<td>10001</td>
<td>9/30/01</td>
<td>AUP (Bank Director's Exam)</td>
<td>N</td>
<td></td>
<td>White</td>
<td>500</td>
</tr>
<tr>
<td>10002</td>
<td>10/31/01</td>
<td>A5</td>
<td>Y</td>
<td>165</td>
<td>Smith</td>
<td>350</td>
</tr>
<tr>
<td>10003</td>
<td>6/30/01</td>
<td>A2</td>
<td>N</td>
<td>320</td>
<td>Jones</td>
<td>275</td>
</tr>
<tr>
<td>10005</td>
<td>12/31/01</td>
<td>A3</td>
<td>N</td>
<td>260</td>
<td>Smith</td>
<td>150</td>
</tr>
<tr>
<td>10005</td>
<td>6/30/01</td>
<td>R</td>
<td>N</td>
<td>260</td>
<td>Smith</td>
<td>110</td>
</tr>
<tr>
<td>10006</td>
<td>6/30/01</td>
<td>C-8</td>
<td>Y</td>
<td>260</td>
<td>Smith</td>
<td>20</td>
</tr>
<tr>
<td>20001</td>
<td>12/31/01</td>
<td>R</td>
<td>Y</td>
<td>165</td>
<td>Smith</td>
<td>100</td>
</tr>
<tr>
<td>20002</td>
<td>3/31/01</td>
<td>R</td>
<td>N</td>
<td>245</td>
<td>White</td>
<td>125</td>
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<td>4/30/01</td>
<td>R</td>
<td>N</td>
<td>270</td>
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<td>45</td>
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<tr>
<td>20003</td>
<td>3/31/01</td>
<td>C</td>
<td>N</td>
<td>270</td>
<td>Jones</td>
<td>35</td>
</tr>
<tr>
<td>20004</td>
<td>6/30/01</td>
<td>C-8</td>
<td>N</td>
<td>270</td>
<td>Jones</td>
<td>20</td>
</tr>
<tr>
<td>30001</td>
<td>12/31/01</td>
<td>C</td>
<td>N</td>
<td>165</td>
<td>Smith</td>
<td>50</td>
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<tr>
<td>30002</td>
<td>3/31/01</td>
<td>CO</td>
<td>N</td>
<td>270</td>
<td>Jones</td>
<td>40</td>
</tr>
<tr>
<td>30003</td>
<td>6/30/01</td>
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<td>N</td>
<td>270</td>
<td>Jones</td>
<td>40</td>
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<td>30004</td>
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<td>270</td>
<td>Jones</td>
<td>40</td>
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<td>30005</td>
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<td>C</td>
<td>N</td>
<td>220</td>
<td>White</td>
<td>80</td>
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<tr>
<td>30006</td>
<td>12/31/01</td>
<td>C-8</td>
<td>N</td>
<td>220</td>
<td>White</td>
<td>20</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2020</td>
</tr>
</tbody>
</table>

* Denotes the level of service by using the codes set forth on page 4115.

** Denotes the type of industry by using the codes set forth on page 4116.

*** Total hours should include only the time from the completed trial balance to the issuance of the accountant's report on the financial statements. Total hours do not include clerical, computer entry, payroll services, taxes, etc.
### Codes for Level of Service

<table>
<thead>
<tr>
<th>Code</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>A1</td>
<td>Audit of SEC Registrant</td>
</tr>
<tr>
<td>A2</td>
<td>Audit Performed Under <em>Government Auditing Standards</em> Issued by the U.S. General Accounting Office, including engagements subject to OMB Circular A-128 and OMB Circular A-133</td>
</tr>
<tr>
<td>A3</td>
<td>Audit Performed Under the Employee Retirement Income Security Act of 1974 (ERISA)</td>
</tr>
<tr>
<td>A4</td>
<td>Audit of Financial Institution With Over $500 Million in Total Assets</td>
</tr>
<tr>
<td>A5</td>
<td>Audits'</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Code</th>
<th>Description</th>
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<tbody>
<tr>
<td>AUP</td>
<td>Agreed-Upon Procedures Under SAS No. 75</td>
</tr>
<tr>
<td>PFSE</td>
<td>Examination of Prospective Financial Statements</td>
</tr>
<tr>
<td>PFSC</td>
<td>Compilation of Prospective Financial Statements</td>
</tr>
<tr>
<td>PFSAUP</td>
<td>Agreed-Upon Procedures of Prospective Financial Statements</td>
</tr>
<tr>
<td>ATE</td>
<td>Examination of Written Assertions</td>
</tr>
<tr>
<td>ATR</td>
<td>Review of Written Assertions</td>
</tr>
<tr>
<td>ATAUP</td>
<td>Agreed-Upon Procedures of Written Assertions</td>
</tr>
<tr>
<td>R</td>
<td>Review of Historical or Personal Financial Statements</td>
</tr>
<tr>
<td>C</td>
<td>Compilation of Historical or Personal Financial Statements With Disclosures on which a report was issued</td>
</tr>
<tr>
<td>CO</td>
<td>Compilation of Historical or Personal Financial Statements Omitting Substantially All Disclosures on which a report was issued</td>
</tr>
<tr>
<td>C-8</td>
<td>Compilation Engagements Performed under SSARS No. 8 where an engagement letter was issued instead of a report</td>
</tr>
</tbody>
</table>

* Includes audits of financial statements and other audit services such as for example, engagements under SAS No. 70, *Service Organizations* (AICPA, *Professional Standards*, vol. 1, AU sec. 324).
## Industry Codes

<table>
<thead>
<tr>
<th>Code</th>
<th>Industry Description</th>
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</thead>
<tbody>
<tr>
<td>110</td>
<td>Agricultural, Livestock, Forestry &amp; Fishing</td>
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<tr>
<td>115</td>
<td>Airlines</td>
</tr>
<tr>
<td>120</td>
<td>Auto Dealerships</td>
</tr>
<tr>
<td>125</td>
<td>Banking</td>
</tr>
<tr>
<td>130</td>
<td>Broadcasting and Entertainment</td>
</tr>
<tr>
<td>135</td>
<td>Brokers and Dealers in Securities</td>
</tr>
<tr>
<td>140</td>
<td>Brokers and Dealers in Commodities</td>
</tr>
<tr>
<td>145</td>
<td>Casinos</td>
</tr>
<tr>
<td>150</td>
<td>Colleges and Universities</td>
</tr>
<tr>
<td>155</td>
<td>Common Interest Realty Associations</td>
</tr>
<tr>
<td>160</td>
<td>Computer Software Development and Sales</td>
</tr>
<tr>
<td>165</td>
<td>Construction Contractors</td>
</tr>
<tr>
<td>170</td>
<td>Continuing Care Retirement Communities</td>
</tr>
<tr>
<td>175</td>
<td>Credit Unions</td>
</tr>
<tr>
<td>180</td>
<td>Extractive Industries—Oil and Gas</td>
</tr>
<tr>
<td>185</td>
<td>Extractive Industries—Mining</td>
</tr>
<tr>
<td>190</td>
<td>Finance Companies</td>
</tr>
<tr>
<td>195</td>
<td>Franchisors</td>
</tr>
<tr>
<td>200</td>
<td>Fire and Casualty Insurance Companies</td>
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<tr>
<td>205</td>
<td>Government Contractors</td>
</tr>
<tr>
<td>210</td>
<td>Health Maintenance Organizations</td>
</tr>
<tr>
<td>216</td>
<td>Hospitals</td>
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<tr>
<td>217</td>
<td>Nursing Homes</td>
</tr>
<tr>
<td>222</td>
<td>HUD</td>
</tr>
<tr>
<td>225</td>
<td>Insurance Agents and Brokers</td>
</tr>
<tr>
<td>230</td>
<td>Investment Companies and Mutual Funds</td>
</tr>
<tr>
<td>235</td>
<td>Leasing Companies</td>
</tr>
<tr>
<td>240</td>
<td>Life Insurance Companies</td>
</tr>
<tr>
<td>245</td>
<td>Manufacturing</td>
</tr>
<tr>
<td>250</td>
<td>Mortgage Banking</td>
</tr>
<tr>
<td>255</td>
<td>Motor Carriers</td>
</tr>
<tr>
<td>260</td>
<td>Not-for-Profit Organizations (including Voluntary Health and Welfare Organizations)</td>
</tr>
<tr>
<td>265</td>
<td>Employee Benefit Plans (including ERISA audits)</td>
</tr>
<tr>
<td>268</td>
<td>Personal Financial Statements</td>
</tr>
<tr>
<td>270</td>
<td>Professional Services (Doctors, Lawyers, Architects, etc.)</td>
</tr>
<tr>
<td>275</td>
<td>Publishing</td>
</tr>
<tr>
<td>280</td>
<td>Real Estate Brokerage</td>
</tr>
<tr>
<td>285</td>
<td>Real Estate Development</td>
</tr>
<tr>
<td>295</td>
<td>Real Estate Investment Trusts</td>
</tr>
<tr>
<td>300</td>
<td>Reinsurance Companies</td>
</tr>
<tr>
<td>305</td>
<td>Retail Trade</td>
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<tr>
<td>310</td>
<td>Savings and Loan Associations</td>
</tr>
<tr>
<td>315</td>
<td>Small Loan Companies</td>
</tr>
<tr>
<td>320</td>
<td>School Districts</td>
</tr>
<tr>
<td>325</td>
<td>State and Local Government</td>
</tr>
<tr>
<td>330</td>
<td>Telephone Companies</td>
</tr>
<tr>
<td>335</td>
<td>Utilities</td>
</tr>
<tr>
<td>340</td>
<td>Wholesale Distributors</td>
</tr>
</tbody>
</table>

[The next page is 4201.]
PRP Section 4200

Quality Control Policies and Procedures Questionnaire for Sole Practitioners With No Professional\(^1\) Staff

.01 This section of the manual contains a questionnaire that the reviewed firm must complete prior to the commencement of the review. This questionnaire has been developed for sole practitioners with no professional staff. Completion of the questionnaire assists a firm in accumulating and organizing the information regarding its quality control system.

.02 The sole practitioner should respond directly with “Yes,” “No,” or “N/A” answers and briefly describe, where appropriate, the policies and procedures he or she has in effect that relate to the questions asked. Where appropriate, the sole practitioner should make reference to any firm documents that describe those policies and procedures in more detail. Examples of such documents might be personnel manuals, audit and accounting manuals, a quality control document or manual, and firm forms and checklists. Lengthy and elaborate answers are not expected.

.03 This questionnaire was developed from the AICPA Guide for Establishing and Maintaining a System of Quality Control for a CPA Firm’s Accounting and Auditing Practice. The reviewed firm should be aware that each question does not relate to explicit requirements of professional standards; the questionnaire was prepared based on a model of suggested policies and procedures that firms are encouraged to consider in designing and maintaining a quality control system. As such, a “No” answer to a question does not necessarily indicate a problem with the firm’s system of quality control. A firm’s policies and procedures should be sufficient for it to obtain reasonable assurance of complying with professional standards.

.04 If the reviewed firm has any SEC engagements, and is not a member of the SECPS, it is required to join the SECPS and should contact the AICPA for guidance.

Firm                                      Prepared By                                      Date

\(^1\) The term “professional” refers to all personnel who perform professional services for which the firm is responsible, whether or not they are CPAs (SQCS No. 2, par. 3, footnote 4).
AICPA Peer Review Program
QUALITY CONTROL POLICIES AND PROCEDURES QUESTIONNAIRE
FOR SOLE PRACTITIONERS WITH NO PROFESSIONAL STAFF

This questionnaire provides the reviewer with basic information. It is not necessarily a checklist of all the policies and procedures that might be applicable to a practice. A sole practitioner about to be reviewed should respond directly with "Yes," "No," or "N/A" answers and briefly describe, where requested, the policies and procedures he or she has in effect that relate to the questions asked. If necessary, additional pages should be added. Where appropriate, make reference to any documents that describe those policies and procedures in more detail. Examples of such documents might be audit and accounting manuals and forms and checklists used in the practice.

A. Independence, Integrity, and Objectivity

The sole practitioner will adhere to applicable independence, integrity, and objectivity requirements. These requirements include regulations, interpretations, and rulings of the AICPA, state CPA societies, state boards of accountancy, state statute, and other regulatory agencies where applicable.

1. Do you have a current edition of the AICPA Professional Standards which contains the profession's interpretations related to potential issues or situations related to independence, integrity, and objectivity? If "no," describe how you obtain reasonable assurance that you are aware of the applicable independence, integrity and objectivity rules.

   Yes  |  No  |  N/A  | Comments


2. Do you review relevant pronouncements related to independence, integrity, and objectivity in the Journal of Accountancy and retain copies of them? If "no," describe how you remain current.

   ________________


3. Do you document your independence on each engagement on a program step and require each per diem personnel to do the same? If "no," describe how independence is monitored.

   ________________


---

2 See footnote 1.
4. Do you review unpaid fees from clients to ascertain whether any outstanding amounts impair the firm's independence? If "no," describe how this is determined. 

5. If you use per diem personnel, are they made aware that the following financial or other relationships may be prohibited:
   
a. Business relationships with clients or with non-clients that have investor or investee relationships with clients? 
   
b. Loans from client financial institutions? 
   
c. Family members in director, officer, manager or audit sensitive positions with client entities, including not-for-profit organizations? 
   
d. Past-due fees for professional services? 
   
e. Accounting or advisory services that have evolved into situations where the CPA has assumed some of the responsibilities of management? 
   
f. Bookkeeping services to SEC clients? 

Describe any potential conflicts. 

The sole practitioner, when acting as principal auditor, will confirm the independence of another firm performing parts of an engagement. 

6. Do you have any engagements where you act as principal auditor or accountant and another firm of CPAs is engaged to perform segments of the engagement? If "yes," — 

a. Describe how you confirm the independence of such other firm(s). The description should include the form and content of the confirmation.
b. Do you confirm the independence of such other firm(s) for each reporting engagement? If “no,” describe how often the confirmation is obtained.

__________________________________________
__________________________________________
__________________________________________

Before a member [ET Sec. 92.20] or his or her firm performs nonattest services for accounting and auditing clients, the member should determine that the requirements described in the Code of Professional Conduct, Interpretation 101-3, Performance of Nonattest Services [ET Sec. 101.05], have been met. In cases where the requirements have not been met with respect to nonattest services rendered during the period of the professional engagement or the period covered by the financial statements, independence would be impaired.

[3a–e under “General Requirements for Performing Nonattest Services” (Interpretation 101-3), provides that before performing nonattest services, the member should establish and document in writing his or her understanding with the client with regard to specific criteria relating to the services. While the requirement for establishing an understanding is effective December 31, 2003, the written documentation requirement has a deferred effective date of December 31, 2004.]

7. Do you provide nonattest services to accounting and auditing clients?

a. If “yes,” did you meet all the requirements of Interpretation 101-3 for each accounting and auditing client for which nonattest services were performed?

b. Did you establish an understanding with each client regarding the following—
   i. Objectives of the engagement?
   ii. Services to be performed?
   iii. Client’s acceptance of its responsibilities?
   iv. Member’s responsibilities?
   v. Any limitations of the engagement?

Where nonattest services were provided to accounting and auditing clients, specify the name of the client, type of service(s), how the understanding was established and the method of written docu-

* A member who performs a compilation engagement for a client should modify the compilation report to indicate a lack of independence if the member does not meet all of the conditions set out in Interpretation 101-3 when providing a nonattest service to that client (see Statement on Standards for Accounting and Review Services (SSARS) No. 1, Compilation and Review of Financial Statements [AR Sec. 100.19]).
B. Personnel Management

The sole practitioner will maintain the degree of technical training and proficiency required in the circumstances.

1. Do you evaluate the knowledge and expertise required to perform an engagement prior to accepting the engagement? If “no,” describe how you determine that you can complete the engagement competently.

2. For each of the firm’s accounting, auditing, and attestation engagements, have you determined that you possess the following knowledge, skills and abilities (competencies) to allow you to fulfill your engagement responsibilities?

   a. An understanding of the role of your firm’s system of quality control and the AICPA’s Code of Professional Conduct.

   b. An understanding of the performance, supervision, and reporting aspects of the engagement.

   c. An understanding of the applicable accounting, auditing, or attestation professional standards including those standards directly related to the industry in which a client operates.

   d. An understanding of the industry in which a client operates, including the industry’s organization and operating characteristics, to identify the areas of high or unusual risk associated with an engagement and to evaluate the reasonableness of industry specific estimates.

   e. Skills that indicate sound professional judgment.

   f. An understanding of how the organization is dependent on or enabled by information technologies, and the manner in which information systems are used to record and maintain financial information.

(attach separate sheet if necessary)
3. If you use per diem personnel, have you set criteria which the personnel must meet in order to perform engagements competently? If “no,” describe how you determine if per diem personnel is capable of performing an engagement. __________________________

__________________________

The sole practitioner will participate in general and industry-specific continuing professional education and professional development activities that enable him or her to satisfy responsibilities and fulfill applicable continuing professional education requirements of the AICPA and regulatory agencies.

4. Do you develop a professional development program considering the requirements of the AICPA and state boards of accountancy? If “no,” describe how you maintain appropriate professional competency and compliance with AICPA, state boards, and other regulatory agencies’ CPE requirements.

__________________________

5. Are you and, if applicable, per diem personnel in compliance with the professional education requirements of the board(s) of accountancy in state(s) where licensed, the AICPA (if applicable), the state CPA society (if applicable), and Government Auditing Standards—the “Yellow Book” (if applicable)? If “no,”—

a. Explain instances of noncompliance. __________

__________________________

b. Attach a list of those personnel who are not in compliance and indicate the firm’s plan for correcting the situation. ________________

__________________________

6. Do you—
a. Participate in external professional development programs? If “yes,” describe. 

______________________________

______________________________

______________________________

b. Participate in any professional organizations? If “yes,” describe. 

______________________________

______________________________

______________________________

c. Serve on professional committees or write professional publications? If “yes,” describe. 

______________________________

______________________________

______________________________

d. Consider changes to professional standards when determining professional development programs? 

7. Do you receive professional publications that keep you abreast of changes in accounting and auditing standards and any client industry-specific pronouncements? If “no,” describe how you keep current with changes.

______________________________

______________________________

______________________________

C. Acceptance and Continuance of Clients and Engagements

The sole practitioner will evaluate factors that have a bearing on management’s integrity.

1. Do you obtain the following information before accepting or continuing a client:

   a. Information regarding the client and its operations from sources such as prior-year reports, interim financial information, reports to regulatory agencies, enforcement actions by regulators, income tax returns, internally generated financial statements, credit reports, and for SEC registrants registration statements, Forms 10-K, Forms 8-K?
b. The nature and purpose of the services to be provided to the client by making inquiries of client management?

c. Information regarding the client and its management by making inquiries of third parties such as bankers, legal counsel, underwriters, and other members of the financial or business community who may have appropriate knowledge?

2. Do you document your communications with predecessor accountants, including inquiries regarding the nature of any disagreements and other events required to be reported on Form 8-K, and whether evidence of "opinion shopping" exists?

3. Do you evaluate the information obtained regarding management's integrity?

4. If "no" to questions 1, 2, or 3 above, briefly describe the procedures you perform in making acceptance and continuance of clients decisions, including the information obtained and considered. Also, describe any variations in those procedures based on factors such as the nature and size of the engagement and prior experience with the client. ____________________________

____________________________________

____________________________________

The sole practitioner will evaluate whether the engagement can be completed with professional competence and, accordingly, undertake only those engagements that can be completed with professional competence, and appropriately consider the risk associated with providing professional services in particular circumstances.

5. Do you consider conditions that require evaluation of a specific client or engagement, obtaining relevant information to determine whether the relationship should be continued, and establishing a specific time period to make that evaluation?

a. If "yes," do the conditions include—

i. Significant changes in the client (such as change in ownership, senior personnel, directors, nature of business, or financial stability)?

ii. Clients delinquent in paying fees?

iii. Engagements in specialized industries?
iv. Engagements where there are burdensome number of hours required to complete the engagement?

v. Engagements for entities in the development stage?

b. If "no," describe how you obtain assurance that you are not continuing a relationship which should be discontinued.

6. Did you consider discontinuing any audit and accounting client relationships during the year under review but decide to continue? If "yes," explain.

The sole practitioner will obtain an understanding with the client regarding services to be performed.

7. Do you adhere to all requirements set forth in professional standards regarding obtaining an understanding with the client?

8. Do you document your understanding with the client regarding the services to be performed by either obtaining an engagement letter for all engagements, thus minimizing the risk of misunderstandings regarding the nature, scope, and limitation of the services to be performed or documenting the understanding in a memorandum? If "no," describe how you obtain assurance that your understanding is in agreement with the client’s understanding of the work to be performed.

D. Engagement Performance

The sole practitioner will plan engagements to meet professional and the firm’s requirements.

1. Do your planning procedures include—
a. Developing or updating background information on the client and the engagement?

b. Obtaining an understanding of the engagement by use of an engagement letter or documentation in the working papers?

c. Reviewing prior financial statements and accountant/auditor's report?

d. Using work programs?

The sole practitioner will perform, supervise, review, document, and communicate in accordance with the requirements of professional standards and the firm.

2. Do you use purchased practice aids in the performance of engagements? If “no,” describe what you use. __________________________________________________________

3. Do you prepare working papers and checklists to document the work performed on engagements? If “no,” describe how you determine that appropriate work has been performed to justify the opinion expressed. __________________________________________________________

4. Do you require documentation of—

a. Consideration of internal control structure in planning and performing the engagement?

b. Assessment of control risk?

c. Consideration of audit risk and materiality when planning and performing an audit?

d. Audit sampling techniques?

e. Consideration of fraud in the financial statement audit?

f. Conduct of and degree of reliance placed on analytical procedures?
5. If you use per diem personnel, do you review and initial all working papers prepared by them? If "no," describe how the review is documented. 

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6. Do you use other accounting firms for audit or accounting engagements? If "yes," describe the form in which instructions are given to the other firms and the extent to which their work is reviewed, or indicate where your procedures for the supervision and control of that work is found. 

The sole practitioner will identify areas and specialized situations where consultation is required and will refer to authoritative literature and practice aids and will consult, on a timely basis, with individuals outside the firm when appropriate (for example, when dealing with complex, unusual, or unfamiliar issues).

7. Do you maintain appropriate up-to-date technical reference materials? If "no," describe how you determine that appropriate technical standards are followed.

8. Do you consult based on the following factors:
   a. The materiality of the matter?
   b. Your experience in a particular industry or functional area?
   c. Whether generally accepted accounting principles or generally accepted auditing standards in the area—
      i. Are based on authoritative pronouncements that are subject to varying interpretations?
      ii. Are based on varied interpretations of prevailing practice?
      iii. Have yet to be developed?
      iv. Are under active consideration by an authoritative body?
v. Have not previously been interpreted by the firm (for example, in connection with another engagement)?

9. Do you consult with outside parties, such as the AICPA Technical Hotline or another CPA qualified in the area, when a technical question arises? If “no,” describe how technical questions are resolved. ___

10. Do you document consultations, including all of the relevant facts and circumstances and references to professional literature?

a. If “yes,” describe where this documentation is maintained. ________________________________

b. If “no,” describe how you justify conclusions. ________________________________

E. Monitoring

The sole practitioner will consider and evaluate, on an ongoing basis, the relevance and adequacy of quality control policies and procedures.

1. Do you revise your policies and procedures that are ineffective due to changes in professional standards?

2. Do you improve your compliance, as needed, with your policies and procedures?

The sole practitioner will consider and evaluate, on an ongoing basis, the appropriateness of guidance materials and any practice aids.

3. Do you review your practice aids to determine that they are up-to-date on a regular basis? If “yes,” describe how often. ________________________________

____
The sole practitioner will consider and evaluate, on an ongoing basis, the effectiveness of professional development activities.

4. Do you review your CPE records to determine that the courses you have taken are appropriate considering your firm's practice?

5. Do you review your CPE records to determine compliance with the requirements of the AICPA and other regulatory bodies?

The sole practitioner will consider and evaluate, on an ongoing basis, compliance with policies and procedures.

6. Do you perform a timely postissuance review of selected engagements?

7. Do you summarize the findings noted on the postissuance reviews?

8. Do you place additional emphasis on deficient areas in future engagements?

9. Do you determine if existing policies and procedures should be modified so any deficiencies noted do not recur?

10. Do you, on an on-going basis, review your compliance with your policies and procedures for independence, integrity and objectivity, personnel management, acceptance and continuance of clients and engagements, and engagement performance?

11. In review of your compliance with your policies and procedures for personnel management, did you consider the results of the firm's monitoring procedures to ensure that you possess the necessary knowledge, skills and abilities (competencies) to allow you to fulfill your responsibilities related to your accounting, auditing, and attestation engagements?

[The next page is 4301.]
PRP Section 4300

Quality Control Policies and Procedures Questionnaire for Firms With Two or More Professional Staff

.01 This section of the manual contains a questionnaire that the reviewed firm must complete prior to the commencement of the review. The questionnaire has been developed for firms with two or more professional staff. Completion of the questionnaire assists a firm in accumulating and organizing the information regarding its quality control system.

.02 The reviewed firm should respond directly with "Yes," "No," or "N/A" answers and briefly describe, where appropriate, the policies and procedures it has in effect that relate to the questions asked. Where appropriate, the firm should make reference to any firm documents that describe those policies and procedures in more detail. Examples of such documents might be personnel manuals, audit and accounting manuals, a quality control document or manual, and firm forms and checklists. Lengthy and elaborate answers are not expected.

.03 This questionnaire was developed from the AICPA Guide for Establishing and Maintaining a System of Quality Control for a CPA Firm's Accounting and Auditing Practice. The reviewed firm should be aware that each question does not relate to explicit requirements of professional standards; the questionnaire was prepared based on a model of suggested policies and procedures that firms are encouraged to consider in designing and maintaining a quality control system. As such, a "No" answer to a question does not necessarily indicate a problem with the firm's system of quality control. A firm's policies and procedures should be sufficient for it to obtain reasonable assurance of complying with professional standards.

.04 If the reviewed firm has any SEC engagements, and is not a member of the SECPS, it is required to join the SECPS and should contact the AICPA for guidance.

.05 There may be arrangements where certain portions of the reviewed firm's system of quality control reside at or operate in conjunction with the system of control of a non-CPA owned entity with which the reviewed firm is closely aligned through common employment, leasing of employees, equipment, facilities, etc., or other similar arrangements. This would generally include policies and procedures relating to the following elements of quality control: (1) independence, integrity and objectivity, (2) personnel management, and (3) monitoring of the elements noted in (1) and (2). If this arrangement applies to the reviewed firm, refer to PRP section 5100, Quality Control Policies and Procedures Questionnaire for Non-CPA Owned Entities Closely Aligned With a CPA Firm.

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1 The term "professional" refers to all personnel (including leased and per diem employees who devote at least 25 percent of their time at the reviewed firm in performing audits, reviews, compilations, or other attest engagements, or those professionals who have the partner/manager level responsibility for the overall supervision or review of such engagements) who perform professional services for which the firm is responsible, whether or not they are CPAs (SQCS No. 2, par. 3, footnote 4).
AICPA Peer Review Program
QUALITY CONTROL POLICIES AND PROCEDURES QUESTIONNAIRE
FOR FIRMS WITH TWO OR MORE PROFESSIONAL\(^2\) STAFF

This questionnaire provides the reviewer with basic information. It is not necessarily a checklist of all the policies and procedures that might be applicable to a practice. A firm about to be reviewed should respond directly with “Yes,” “No,” or “N/A” answers and briefly describe, where requested, the policies and procedures it has in effect that relate to the questions asked. If necessary additional pages should be added. Where appropriate, make reference to any documents that describe those policies and procedures in more detail. Examples of such documents might be audit and accounting manuals and forms and checklists used in the practice.

A. Independence, Integrity, and Objectivity (If the reviewed firm is closely aligned with a non-CPA owned entity, and certain portions of this element of the reviewed firm’s system of quality control reside at or operate in conjunction with the system of control of the non-CPA owned entity, refer to PRP section 5100, Quality Control Policies and Procedures Questionnaire for Non-CPA Owned Entities Closely Aligned With a CPA Firm.)

Personnel\(^2\) will adhere to applicable independence, integrity, and objectivity requirements to the extent required. These requirements include regulations, interpretations, and rulings of the AICPA, state CPA societies, state boards of accountancy, state statute, the Independent Standards Board (ISB), the Securities and Exchange Commission (SEC), and other regulatory agencies where applicable.

1. Does the firm have a system for identifying all services performed for clients, including services performed by entities closely aligned through common employment, etc.?
   a. If “yes,” identify the relevant policies and procedures. ____________________________________________

   b. If “no,” describe how the firm differentiates the types of services performed. ______________________

2. Does the firm have policies and procedures in place to ensure the independence of the firm as required by the AICPA, state CPA societies, state boards of accountancy, state statute, the Independence Standards Board (ISB), the Securities and Exchange Commission (SEC), and other regulatory bodies, if applicable?
   a. If “yes,” how is this information documented (e.g., memorandum, manuals, etc.)? ________

\(^2\) See footnote 1.
b. If "no," how does the firm obtain reasonable assurance that its personnel are aware of the pertinent regulations, interpretations, rulings of regulatory agencies that impact the firm. 

____________________________________________________

3. Does the firm have policies and procedures that contain the firm's interpretations of professional and regulatory requirements and guidance for resolving potential issues or situations related to its independence, integrity, and objectivity, including the affect on independence, integrity, and objectivity of services provided to clients of the firm by entities with which the firm is closely aligned through the leasing of employees, facilities, etc., or other similar arrangements?

a. If "yes," are they documented?

b. If "no," describe how the firm obtains reasonable assurance that its personnel comply with the independence, integrity, and objectivity rules. 

____________________________________________________

4. Does the firm have an individual who is responsible for providing guidance, answering questions, monitoring compliance, and resolving matters with respect to independence, integrity, and objectivity?

a. If "yes," identify. ________________________________

b. If "no," describe how the firm handles these matters. ____________________________________________

____________________________________________________

5. In connection with the resolution of independence, integrity, and objectivity questions,—

a. Are there circumstances which would ordinarily cause the firm to document the resolution to such questions?

i. If "yes," briefly describe and indicate where the documentation is maintained (for example, the working paper files or other specific firm or client files). 

____________________________________________________

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AICPA Peer Review Program Manual

PRP §4300.06
ii. If "no," describe how the firm determines compliance with professional standards for independence, integrity, and objectivity. 

\[\text{Comments} \]

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b. Has the firm found it necessary within the last year to consult with individuals outside the firm on independence, integrity, or objectivity concerns? If "yes," describe.

\[\text{Comments} \]

6. Does the firm obtain written representations from all professional personnel, upon hire and on an annual basis, stating whether they are familiar with and are in compliance with professional standards and the firm’s policies and procedures regarding independence, integrity, and objectivity?

a. If "yes," describe where the representations are maintained and who is responsible for maintaining them.

\[\text{Comments} \]

b. If "no," describe how the firm monitors compliance with its independence, integrity, and objectivity policies.

\[\text{Comments} \]

7. Does the firm review unpaid fees from clients to ascertain whether any outstanding amounts may impair the firm’s independence?

a. If "yes," describe—

i. Who does this.

\[\text{Comments} \]

ii. How often it is done.

\[\text{Comments} \]

---

5 See footnote 1.
iii. Whether there have been any such situations during the year under review. ___

________________________________________________________________________

b. If “no,” describe how the firm monitors its independence with respect to clients with unpaid fees.

________________________________________________________________________

________________________________________________________________________

Personnel\(^4\) will be familiar with policies and procedures relating to independence, integrity, and objectivity.

8. Does the firm inform its personnel\(^5\) of financial or other relationships that may be prohibited?

a. If “yes,” do those relationships include—

i. Business relationships with clients or with non-clients that have investor or investee relationships with clients?

ii. Loans to and from clients, including loans from financial institutions clients?

iii. Family members who are employed by clients, or who are in director, officer, manager, or audit sensitive positions with clients, including not-for-profit organizations?

iv. Past due fees for professional services from clients?

v. Accounting or advisory services that have evolved into situations where the service provider has assumed some of the responsibilities of client management?

vi. Bookkeeping services to SEC clients, if applicable?

vii. Direct and material investments in clients?

viii. Client relationships with a non-CPA owned entity with whom the firm may lease employees, facilities, etc., if applicable?

ix. Positions where personnel in a non-CPA owned entity act as promoters, underwriters, voting trustees, directors, or officers of the firm’s clients?

\(^{4}\) See footnote 1.

\(^{5}\) See footnote 1.
x. Material investments of firm clients in a non-CPA owned entity, which allow the clients to exercise significant influence over the non-CPA owned entity? Describe any potential conflicts.

b. If “no,” describe how the firm determines that its personnel are aware of prohibited relationships.

9. Does the firm communicate its policies and procedures for independence, integrity, and objectivity to its personnel?

a. If “yes,”

i. Describe how the firm communicates its policies and procedures for independence, integrity, and objectivity to its professional personnel.

ii. Do professional personnel have access to guidance materials regarding the applicable independence, integrity, and objectivity requirements (for example, through computer software that has access to databases containing professional and regulatory literature, or by subscribing to the AICPA Professional Standards loose-leaf service and other services pertaining to the firm’s practice)? If “yes,” are professional personnel encouraged to become familiar with these materials, including discussing the implications on engagements (for

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6 See footnote 1.
7 See footnote 1.
8 See footnote 1.
9 See footnote 1.
10 See footnote 1.
example, complying with *Statements on Standards for Accounting and Review Services* with respect to disclosing instances where the firm is not independent in the accountant's compilation report)?

b. If “no,” describe how firm personnel\textsuperscript{11} would obtain this information. __________________________________________________________________________________________

________________________________________________________________________________________

10. Does the firm inform its professional personnel on a timely basis as to any changes in the firm’s client list?

a. If “yes,” describe how the firm communicates these changes to professional personnel. __________________________________________________________________________________________

________________________________________________________________________________________

b. If “no,” how does the firm ensure that all professional personnel are aware of any changes to the firm’s client list? __________________________________________________________________________________________

________________________________________________________________________________________

11. Does the firm inform its professional personnel\textsuperscript{12} on a timely basis of those entities to which independence policies apply?

a. If “yes,” does the firm prepare and maintain lists of entities for which independence applies and make those lists available to personnel who need them to determine their independence? If “no,” describe how the firm informs its professional personnel. __________________________________________________________________________________________

________________________________________________________________________________________

________________________________________________________________________________________

b. If “no,” describe how the firm determines that its personnel know to which entities independence policies apply. __________________________________________________________________________________________

________________________________________________________________________________________

________________________________________________________________________________________

\textsuperscript{11} See footnote 1.

\textsuperscript{12} See footnote 1.
The firm, when acting as principal auditor, will confirm the independence of another firm performing parts of an engagement.

12. Does the firm have any engagements where it acts as principal auditor or accountant and another firm of CPAs is engaged to perform segments of the engagement? If "yes,"—

a. Describe how the firm confirms the independence of such other firm(s). The description should include the form and content of the confirmation.

b. Does the firm confirm the independence of such other firm(s) for each reporting engagement? If "no," describe how often the confirmation is obtained.

Before a member [ET Sec. 92.20] or his or her firm performs nonattest services for accounting and auditing clients, the member should determine that the requirements described in the Code of Professional Conduct, Interpretation 101-3, Performance of Nonattest Services [ET Sec. 101.05], have been met. In cases where the requirements have not been met with respect to nonattest services rendered during the period of the professional engagement/or the period covered by the financial statements, independence would be impaired.

[3a-e under "General Requirements for Performing Nonattest Services" (Interpretation 101-3), provides that before performing nonattest services, the member should establish and document in writing his or her understanding with the client with regard to specific criteria relating to the services. While the requirement for establishing an understanding is effective December 31, 2003, the written documentation requirement has a deferred effective date of December 31, 2004.]

13. Do you provide nonattest services to accounting and auditing clients?

a. If “yes,” did you meet all the requirements of Interpretation 101-3 for each accounting and auditing client for which nonattest services were performed?

* A member who performs a compilation engagement for a client should modify the compilation report to indicate a lack of independence if the member does not meet all of the conditions set out in Interpretation 101-3 when providing a nonattest service to that client (see SSARS No. 1, Compilation and Review of Financial Statements [AR Sec. 100.19]).
b. Did you establish an understanding with each client regarding the following—
   i. Objectives of the engagement?
   ii. Services to be performed?
   iii. Client's acceptance of its responsibilities?
   iv. Member's responsibilities?
   v. Any limitations of the engagement?

Where nonattest services were provided to accounting and auditing clients, specify the name of the client, type of service(s), how the understanding was established and the method of written documentation, if any, i.e. Engagement Letter (E) or Other (O), if (O), describe.

(attach separate sheet if necessary)

B. Personnel Management (If the reviewed firm is closely aligned with a non-CPA owned entity, and certain portions of this element of the reviewed firm's system of quality control reside at or operate in conjunction with the system of control of the non-CPA owned entity, refer to PRP section 5100, Quality Control Policies and Procedures Questionnaire for Non-CPA Owned Entities Closely Aligned With a CPA Firm.)

Personnel\(^\text{13}\) who are hired will possess the appropriate characteristics to enable them to perform competently.

1. Does the firm have an individual who is responsible for the firm's hiring and human resources management, including evaluation of personnel needs, establishment of hiring objectives and providing final approval?

   a. If "yes," identify.

   b. If "no," describe—

   i. How this is accomplished.

\(^{13}\) See footnote 1.
ii. How the firm determines that it has adequate staff to perform its professional engagements.

______________________________________________________________________________
______________________________________________________________________________
______________________________________________________________________________

2. Does the firm have an arrangement with the non-CPA owned entity, whereby an individual is responsible for the firm's acquiring or contracting with leased and per diem employees, including evaluation of personnel needs, establishment of hiring objectives and providing final approval?
   a. If "yes," please identify. ________________________________
      _______________________________________________________________________
      _______________________________________________________________________
      _______________________________________________________________________
   b. If "no," how is this accomplished for leased and per diem employees? ________________
      _______________________________________________________________________
      _______________________________________________________________________
      _______________________________________________________________________

If "no," how does the firm determine that it has qualified leased and per diem staff to perform its professional engagements? ________________________________
      _______________________________________________________________________
      _______________________________________________________________________
      _______________________________________________________________________

3. Does the firm have hiring criteria?
   a. If "yes," briefly describe—
      i. The attributes, achievements, and experiences desired in entry-level and experienced personnel\(^\text{14}\) to enable them to perform completely within the firm. Highlight any items which represent requirements for hire. ________________________________
         _______________________________________________________________________
         _______________________________________________________________________
         _______________________________________________________________________
      ii. How the firm evaluates the personal characteristics such as integrity, competence, and motivation of new hires. ________________________________
         _______________________________________________________________________
         _______________________________________________________________________
         _______________________________________________________________________

\(^{14}\) See footnote 1.
iii. Any additional information the firm requires for experienced hires, such as background checks, and inquiries about any outstanding regulatory actions. ____

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b. If “no,” describe how the firm determines that the personnel hired are appropriate for the position they are hired to fill.____________________

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4. Does the firm have criteria for determining which individuals will be involved in the interviewing and hiring process?

a. If “yes,” describe how the individuals are trained. ______________________

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b. If “no,” describe how the firm determines who is appropriate for this role. _________________

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The firm will make personnel assignments based on the degree of technical training and proficiency required in the circumstances, including the competencies of the practitioner-in-charge of the firm accounting, auditing, and attestation engagements, and the nature and extent of supervision to be provided.

5. Does the firm have policies and procedures to ensure personnel assigned to engagements have the degree of technical training and proficiency required in the circumstances considering the nature and extent of supervision to be provided?

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15 See footnote 1.
16 See footnote 1.
17 See footnote 1.
a. If "yes," describe—

i. Who is responsible for the assignment of personnel\textsuperscript{18} to engagements, including high-risk engagements and industries. 

\underline{ii. What factors are used to determine how personnel\textsuperscript{19} are assigned to engagements (for example, engagement size and complexity, specialized experience or expertise required, personnel availability and involvement of supervisory personnel, timing of the work to be performed, continuity and rotation of personnel, opportunities for on-the-job training, previous knowledge, skills, and abilities (competencies) gained through other experience, situations where independence or objectivity concerns exist).}

b. If "no," describe how the firm determines that the personnel\textsuperscript{20} assigned to engagements are qualified to perform the engagements.

6. Does the firm specify the knowledge, skills and abilities (competencies) the practitioner-in-charge of the firm’s accounting, auditing or attestation engagements (i.e., the partner or other person who is responsible for supervising those types of engagements and signing or authorizing someone to sign the accountant’s report on such engagements) should possess to fulfill their engagement responsibilities? Do such competencies for the practitioner-in-charge include:

a. An understanding of the role of your firm’s system of quality control and the AICPA’s Code of Professional Conduct.

b. An understanding of the performance, supervision, and reporting aspects of the engagement.

\textsuperscript{18} See footnote 1.

\textsuperscript{19} See footnote 1.

\textsuperscript{20} See footnote 1.
c. An understanding of the applicable accounting, auditing, or attestation professional standards, including those standards directly related to the industry in which a client operates.

d. An understanding of the industry in which a client operates, including the industry’s organization and operating characteristics, to identify the areas of high or unusual risk associated with an engagement, and to evaluate the reasonableness of industry specific estimates.

e. Skills that indicate sound professional judgement.

f. An understanding of how the organization is dependent on or enabled by information technologies, and the manner in which information systems are used to record and maintain financial information.

Personnel\(^1\) will participate in general and industry-specific continuing professional education and other professional development activities that enable them to satisfy responsibilities assigned and fulfill applicable continuing professional education requirements of the AICPA and regulatory agencies.

7. Does the firm have an individual who is responsible for the firm’s CPE and professional development activities?

   a. If “yes,” identify. ______________________________________

   b. If “no,” describe how the firm monitors its CPE and professional development activities. ______________________________________

8. Do personnel\(^2\) assigned to audit and accounting engagements take courses related to those engagements?

   a. Provide an approximation of the type of CPE taken.

      Self-study courses ________%

      In house-training program

         (I) Developed by the firm ________%

         (II) Obtained from outside vendors ________%
State society or AICPA programs  ____% 
Other programs  ____% 

b. Describe how the firm assures personnel\textsuperscript{23} participate in CPE related to accounting and auditing assignments, including specialized industries. 

9. Are all personnel\textsuperscript{24} in compliance with the professional education requirements of the board(s) of accountancy in state(s) where they are licensed, the AICPA (if applicable), the state CPA society (if applicable), and Government Auditing Standards—the “Yellow Book” (if applicable)? If “no,”— 

a. Explain instances of noncompliance. 

b. Attach a list of those personnel\textsuperscript{25} who are not in compliance and indicate the firm’s plan for correcting the situation. 

10. Does the firm have an individual who maintains CPE records and course materials for professional personnel\textsuperscript{26} 

a. If “yes,” identify. 

b. If “no,” describe how the firm determines that all personnel\textsuperscript{27} are in compliance with applicable CPE requirements. 

\textsuperscript{23}See footnote 1. 
\textsuperscript{24}See footnote 1. 
\textsuperscript{25}See footnote 1. 
\textsuperscript{26}See footnote 1. 
\textsuperscript{27}See footnote 1.
11. Does the firm have an orientation and training policy for new hires?
   a. If "yes," briefly describe the policy. 
      ____________________________________________
      ____________________________________________
      ____________________________________________
      ____________________________________________

   b. If "no," describe how the firm trains new hires.
      ____________________________________________
      ____________________________________________
      ____________________________________________
      ____________________________________________

12. Does the firm inform personnel\textsuperscript{28} of changes in accounting and auditing standards, independence, integrity, and objectivity requirements and the firm's technical policies and procedures with respect to them (for example, by distributing technical pronouncements and holding training courses on recent changes and areas noted by the firm as needing improvement)?
   a. If "yes," briefly describe. 
      ____________________________________________
      ____________________________________________
      ____________________________________________
      ____________________________________________

   b. If "no," describe how the firm determines that personnel are informed of changes in professional standards.
      ____________________________________________
      ____________________________________________
      ____________________________________________
      ____________________________________________

13. Does the firm encourage personnel\textsuperscript{29} to participate in other professional development activities, such as graduate level courses, membership in professional organizations, serving on professional committees, and writing for professional publications?

   \textbf{Personnel\textsuperscript{30} selected for advancement will have the qualifications necessary to fulfill the responsibilities they will be called on to assume.}

\textsuperscript{28} See footnote 1.
\textsuperscript{29} See footnote 1.
\textsuperscript{30} See footnote 1.
14. Does the firm have different levels of responsibility within the firm (for example, partner, manager, senior)? If “yes,” briefly describe.

15. Does the firm have an individual responsible for advancement and termination decisions?
   a. If “yes,” describe who is responsible for—
      i. Establishing evaluation and advancement criteria for personnel at all levels, including development of evaluation forms. Also, briefly describe whether criteria are documented (for example, in a personnel manual).
      
      ii. Making advancement and termination decisions, including identifying responsibilities and requirements for evaluation at each level and deciding who will prepare evaluations.
      
      iii. Development of the evaluation form for each professional classification, including partners.

   b. If “no,” describe how these decisions are made and implemented.

16. Does the firm have an arrangement with the non-CPA owned entity for an individual to be responsible for advancement and termination decisions concerning acquired and contracted leased and per diem employees?
Quality Control Policies and Procedures—Firms With Two or More Professional Staff

a. If “yes,” who is responsible for:
   i. Determining whether they performed adequately? ____________________________
   ii. Evaluating their abilities and qualifications based on performance? __________
   iii. Determining how they should be used on future engagements? ______________

b. If “no,” how are these decisions made and implemented? ________________________

17. Does the firm periodically evaluate the performance of personnel31 and advise them of their progress in the firm?
   a. If “yes,”—
      i. Describe who is responsible for performing the evaluation. __________________
      ii. Describe how often the evaluations are performed. _________________________
      iii. Are standard evaluation forms used? If “no,” briefly describe whether they are documented by another means. _________

b. If “no,” describe how firm personnel32 are informed of their performance and progress in the firm.

18. Does the firm counsel personnel33 regarding their progress and career opportunities by—
   a. Periodically summarizing and reviewing with personnel the evaluation of their performance,
including an assessment of their knowledge, skills and abilities (competencies) and progress with the firm, that includes a discussion regarding performance, future objectives of the firm and the individual, assignment preferences, and career opportunities?

b. Periodically evaluating owners, including whether they possess the knowledge, skills and abilities (competencies) necessary to enable them to be qualified to perform the firm’s accounting, auditing or attestation engagements? For example, by means of counseling peer evaluation, or self-appraisal.

C. Acceptance and Continuance of Clients and Engagements

The firm will evaluate factors that have a bearing on management’s integrity.

1. Does the firm have documented policies and procedures for accepting prospective clients and the continuance of current clients?
   a. If “yes,”—
      i. Describe where the documentation is located.
      ii. Does the firm’s policies and procedures include obtaining and evaluating—
         (a) Information regarding the client and its operations from sources such as annual reports, interim financial information, reports to regulatory agencies, enforcement actions by regulators, income tax returns and for SEC registrants registration statements, Forms 10-K, Forms 8-K?
         (b) The nature and purpose of the services to be provided to the client by making inquiries of client management?
         (c) Information regarding the client and its management by making inquiries of third parties such as bankers, legal counsel, underwriters, and other members of the financial or business community who may have appropriate knowledge?
   b. If “no,” describe the procedures the firm performs in making acceptance and continuance of
clients decisions, including the information obtained and considered. Also, describe any variations in those procedures based on factors such as the nature and size of the engagement and prior experience with the client. 

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2. Does the firm document its communication with predecessor accountants, including inquiries regarding the nature of any disagreements and other events required to be reported on Form 8-K, and whether evidence of “opinion shopping” exists?

   a. If “yes,” where is the documentation maintained. 

   b. If “no,” describe how the firm documents compliance with SAS No. 85. 

3. Does the firm’s policies and procedures require information be obtained regarding management’s integrity? If “no,” describe how the firm determines that management’s integrity is appropriate. 

4. Does the firm inform personnel\(^{34}\) of its acceptance and continuance of clients policies and procedures?

   a. If “yes,” briefly describe how they are informed. 

\(^{34}\) See footnote 1.
b. If “no,” describe how personnel\textsuperscript{35} know what policies and procedures should be followed for accepting and continuing clients. 

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The firm will evaluate whether the engagement can be completed with professional competence and, accordingly, undertake only those engagements that can be completed with professional competence, and appropriately consider the risk associated with providing professional services in particular circumstances.

5. Does the firm evaluate whether it has obtained or can reasonably expect to obtain the knowledge and expertise necessary to perform the engagement?

a. If “yes,” describe how this decision is reached and whether it is documented.

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b. If “no,” describe how the firm determines that it can perform engagements.

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6. Does the firm specify conditions that require evaluation of a specific client or engagement, obtaining relevant information to determine whether the relationship should be continued, and establishing a specific time period to make that evaluation?

a. If “yes,” do the conditions include—

i. Significant changes in the client (such as change in ownership, senior personnel, directors, advisors, nature of business, or financial stability)?

[The next page is 4319.]

\textsuperscript{35} See footnote 1.
ii. Changes in the nature or scope of the engagement, including requests for additional services?

iii. Changes in the strategic focus or composition of the firm (such as the inability to replace the loss of key personnel or the decision to discontinue services to clients in a particular industry)?

iv. The existence of conditions that would have caused the firm to reject the client or engagement had such conditions existed at the time of the initial acceptance such as unreliable processes for making accounting estimates, questionable estimates by management, questions regarding an entity's ability to continue as a going concern, and any other factors that may increase the risk of being associated with the client?

v. Clients delinquent in paying fees?

vi. Engagements in specialized industries?

vii. Engagements where there are a burdensome number of hours required to complete the engagement?

viii. Engagements for entities in the development stage?

b. If "no," describe how the firm obtains assurance that it is not continuing a relationship which should be discontinued.

7. Does the firm designate individuals to evaluate and make a recommendation as to whether a client or engagement should be accepted or continued?

a. If "yes," do the individuals—

i. Evaluate all the information obtained about the client or engagement and make a recommendation about whether the client or engagement should be accepted or continued?

ii. Document the decision and have an individual at an appropriate level approve the decision?
b. If "no," describe how the decision to accept or continue a client or engagement is made.

__________________________________________________________________________
__________________________________________________________________________
__________________________________________________________________________
__________________________________________________________________________

8. Did the firm consider discontinuing any audit and accounting client relationships during the year under review but decide to continue? If "yes," explain.

__________________________________________________________________________
__________________________________________________________________________
__________________________________________________________________________
__________________________________________________________________________

*The firm will obtain an understanding with the client regarding the services to be performed.*

9. Does the firm document its understanding with the client regarding the services to be performed by obtaining an engagement letter for all engagements, thus minimizing the risk of misunderstandings regarding the nature, scope, and limitation of the services to be performed? If "no," describe how the firm obtains assurance that its understanding is in agreement with the client’s understanding of the work to be performed.

__________________________________________________________________________
__________________________________________________________________________
__________________________________________________________________________
__________________________________________________________________________

D. Engagement Performance

*The engagement will be planned to meet professional, regulatory, and firm requirements.*

1. Does the firm provide its personnel\(^{36}\) with documented policies and procedures for planning audit and accounting engagements?

   a. If "yes," indicate where that documentation is located (for example, in an audit and accounting manual).

   ______________________________________________________________________
   ______________________________________________________________________
   ______________________________________________________________________
   ______________________________________________________________________

   b. If "no," briefly describe the procedures the firm performs in planning audit and accounting engagements, including the information obtained and considered and the nature, timing and extent

\(^{36}\) See footnote 1.
of partner involvement in the planning process. Also, describe any variations in those procedures based on factors such as the nature and size of the engagement and prior experience on the engagement.

2. Does the firm’s policies and procedures for planning include—
   a. Who has responsibility for planning the engagement? If “yes,” indicate.

   b. Developing or updating background information on the client and the engagement? If “yes,” indicate who is responsible.

   c. Developing a proposed work program, tailored to the specific engagement?

   d. Staffing requirements, and specialized knowledge?

   e. Considering economic conditions affecting the client or its industry and their potential impacts on the conduct of the engagement?

   f. Considering risks and how they may affect the procedures to be performed?

   g. Preparing a budget that allocates a sufficient amount of time so the engagement will be performed in accordance with professional standards and the firm’s quality control procedures?

   The engagement will be performed, supervised, reviewed, documented, and communicated in accordance with the requirements of professional standards, regulatory authorities, and the firm.

3. Does the firm’s policies and procedures—
   a. Require that a written program be used on all engagements?
      i. If “yes,” is someone with appropriate authority required to review and approve the program? If “yes,” describe how this approval is documented?

---

AICPA Peer Review Program Manual

PRP §4300.06
ii. If "no," describe how personnel\textsuperscript{37} are made aware of the procedures to be performed on engagements. ____________________________________
________________________________________
________________________________________
________________________________________

b. Specify the form and content of working papers, including standardized forms, checklists, and questionnaires, that are to be used in the performance of engagements and the method by which the firm integrates such aids into engagements?

i. If "yes," describe and attach a list and indicate whether the use of each is required or discretionary. (Note that the reviewer will want to inspect these forms during the review.) ____________________________________
________________________________________
________________________________________
________________________________________

ii. If "no," describe how the firm determines that the working papers, including standardized forms, checklists, and questionnaires, that are used in the performance of engagements and the method by which they are used is appropriate. ____________________________________
________________________________________
________________________________________
________________________________________

c. Require documentation of—

i. Consideration of internal control structure in planning and performing the engagement?

ii. Assessment of control risk?

iii. Consideration of audit risk and materiality when planning and performing an audit?

iv. Audit sampling technique?

v. Consideration of fraud in the financial statement audit?

vi. Conduct of and degree of reliance placed on analytical procedures?

\textsuperscript{37} See footnote 1.
If "no" to any of the above, describe how the firm determines that appropriate procedures were performed.

\[ \text{___________________________} \]
\[ \text{___________________________} \]
\[ \text{___________________________} \]
\[ \text{___________________________} \]

\[ d. \] Describe the steps to follow when the firm uses other offices or correspondents for audit or accounting engagements?

\[ i. \] If “yes,” describe the form in which instructions are given to other offices or correspondents and the extent to which their work is reviewed, or indicate where the firm’s procedures for the supervision and control of that work are found.

\[ \text{___________________________} \]
\[ \text{___________________________} \]
\[ \text{___________________________} \]

\[ ii. \] If “no,” describe how the firm determines that the work performed was appropriate.

\[ \text{___________________________} \]
\[ \text{___________________________} \]
\[ \text{___________________________} \]

\[ e. \] Specify the extent of engagement review so that the financial statements, communications with management and the board of directors meet professional and firm presentation and disclosure standards? If “no,” describe how the firm determines that an appropriate review was performed and that communications were in accordance with firm and professional standards.

\[ \text{___________________________} \]
\[ \text{___________________________} \]
\[ \text{___________________________} \]

\[ 4. \] Does the firm’s policies and procedures assign responsibility for review of all reports, financial statements, and working papers to a reviewer who is senior (when possible) to the preparer?

\[ a. \] If “yes,” is that review designed to obtain reasonable assurance that—

\[ i. \] The procedures performed are consistent with engagement planning and that exceptions are appropriately investigated?
ii. The appropriateness of planned procedures were reconsidered when significant changes in risk factors were identified during the engagement?

iii. Firm-prescribed forms, checklists, questionnaires, and purchased practice aids (as applicable) were used in performing and reporting on the engagement?

   b. If "no," describe how the firm obtains assurance that reports, financial statements, and working papers are appropriate.

5. Does the firm require that a partner of the firm be assigned as the person ultimately responsible for each engagement (certain standards may require partner responsibility)? If "no," describe who is responsible for the final approval for issuing the accountant’s/auditor’s report.

6. Does the firm require a second review of reports, financial statements, and selected working papers by a partner or manager having no other significant responsibility for the engagement? If "yes," indicate who performs such second reviews and briefly describe the extent of the review and how the review is documented, indicating the types of engagements to which the procedures are applicable.

7. Does the firm’s policies and procedures regarding review of reports, financial statements, working papers, and for documentation of the review process ensure that—

   a. All reviewers have appropriate experience, competence and responsibility?

   b. All engagements performed comply with professional standards and firm policy?

   c. Appropriate documentation is required on all engagements evidencing review of reports, financial statements, and working papers?
8. Does the firm have policies and procedures for personnel to follow to resolve differences of professional judgment within an engagement team (see AICPA, Professional Standards, vol. 1, AU sec. 311.14)?

   a. If "yes,"—
      i. Are they documented? If "yes," describe where. ________________________________

      ii. Do they identify who is responsible for resolving such matters? If "yes," identify. ________________________________

      iii. Do those procedures allow an assistant to document his or her disagreement with the conclusion reached?

   b. If "no," describe how firm personnel know what procedures to follow in the event of a difference in professional judgment. ________________________________

9. Has the firm merged with any other firm since the date of its last peer review or in the last three years? If "yes,"—

   a. Did the firm acquire any personnel in the merger?

   b. Did the firm acquire and retain any new offices in the merger? If "yes," indicate the locations of any such offices. ________________________________

   c. Have the personnel of the acquired firm adopted the firm’s quality control policies and procedures? If "no," briefly describe on a separate page the plan for integrating the acquired firm.

   The firm will identify areas and specialized situations where consultation is required and will require personnel to refer to authoritative literature and practice aids and to consult, on a timely basis, with individuals within or outside the firm when appropriate (for example, when dealing with complex, unusual, or unfamiliar issues).

38 See footnote 1.

39 See footnote 1.
10. Does the firm inform personnel\textsuperscript{40} of its consultation policies and procedures?

\hspace{1cm} a. If "yes," briefly describe how they are informed.

\hspace{1cm} b. If "no," describe how personnel are made aware of what procedures to follow when they encounter areas or situations where consultation is required.

11. Does the firm require the person ultimately responsible for the engagement to determine the need to consult?

\hspace{1cm} a. If "yes," is that determination based on—

\hspace{2cm} i. The materiality of the matter?

\hspace{2cm} ii. The experience of senior engagement personnel in a particular industry or functional area?

\hspace{2cm} iii. Whether generally accepted accounting principles or generally accepted auditing standards in the area—

\hspace{3.5cm} (a) Are based on authoritative pronouncements that are subject to varying interpretations?

\hspace{3.5cm} (b) Are based on varied interpretations of prevailing practice?

\hspace{3.5cm} (c) Have yet to be developed?

\hspace{3.5cm} (d) Are under active consideration by an authoritative body?

\hspace{3.5cm} (e) Have not previously been interpreted by the firm (for example, in connection with another engagement)?

\hspace{1cm} b. If "no," describe who determines the need to consult.

\textsuperscript{40} See footnote 1.
12. Does the firm identify circumstances, including specialized situations, when firm personnel are expected to consult?

   a. If "yes," do those circumstances include—
      i. Application of newly issued technical pronouncements?
      ii. Industries with special accounting, auditing, or reporting requirements?
      iii. Emerging practice problems?
      iv. Choices among alternative generally accepted accounting principles upon initial adoption or when an accounting change is made?
      v. Reissuance of a report, consideration of omitted procedures after a report has been issued, or subsequent discovery of facts that existed at the time a report was issued?
      vi. Filing requirements of regulatory agencies?
      vii. Meetings with the SEC and other regulators, at which the firm is to be called on to support the applications of generally accepted accounting principles which have been questioned?

   b. If "no," describe how personnel are informed of situations when they should consult. ______

13. Does the firm designate individuals within and outside the firm as consultants in certain areas?

   a. If "yes,"
      i. Attach a list of the individuals designated as consultants and what their specialties are and indicate how personnel have been made aware of this information.
      ii. Describe how differences of opinion between engagement personnel and specialists are resolved. ______

---

41 See footnote 1.
42 See footnote 1.
43 See footnote 1.
iii. Describe how the firm determines when to consult with outside parties and with whom to consult.__________________________

__________________________

__________________________

iv. During the year under review, has the firm sought advice from outside parties to resolve questions involving professional standards or specialized industry practices? If “yes,” describe. _________________________

__________________________

__________________________

b. If “no,” describe how personnel\textsuperscript{44} are made aware of whom they should consult. ________

__________________________

__________________________

14. Does the firm maintain or provide its personnel\textsuperscript{45} access to adequate and up-to-date reference materials which includes materials related to the clients it serves?

a. If “yes,” do those materials include—

i. AICPA Professional Standards?

ii. AICPA industry audit guides relevant to the firm’s practice?

iii. FASB pronouncements?

iv. GASB pronouncements, Government Auditing Standards (the “Yellow Book”), and other government audit guides relevant to the firm’s practice?

v. SEC pronouncements?

b. If “no,” describe how personnel\textsuperscript{46} are kept aware of current professional standards related to the firm’s clients. _____________________________

__________________________

__________________________

__________________________

\textsuperscript{44} See footnote 1.

\textsuperscript{45} See footnote 1.

\textsuperscript{46} See footnote 1.
15. Does the firm require documentation of consultation?
   a. If "yes," does that documentation include—
      i. All relevant facts and circumstances?
      ii. References to professional literature used in the determination?
      iii. Conclusions reached?
      iv. Signatures of engagement partner and consultant?
      v. Reference to the engagement working papers?
   b. If "no," describe how the firm justifies the position taken on the consultation.

   16. Does the firm have guidance regarding reports on the application of accounting principles under SAS No. 50? If "yes," has that guidance been communicated to personnel?\textsuperscript{47}

   Indicate whether the firm issued any such reports during the year under review.

E. Monitoring (If the reviewed firm is closely aligned with a non-CPA owned entity, and certain portions of this element of the reviewed firm's system of quality control reside at or operate in conjunction with the system of control of the non-CPA owned entity, refer to PRP section 5100, Quality Control Policies and Procedures Questionnaire for Non-CPA Owned Entities Closely Aligned With a CPA Firm.)

The firm will consider and evaluate, on an ongoing basis, the relevance and adequacy of its quality control policies and procedures.

1. Does the firm have a partner or a manager-level individual who is responsible for its quality assurance?
   a. If "yes," identify.____________________________

\textsuperscript{47} See footnote 1.
b. If “no,” describe how the firm determines that its quality control policies and procedures are adequate.

___________________________________

___________________________________

___________________________________

___________________________________

2. Does the firm consider the following quality assurance matters:

a. The need to review the relevance and adequacy of the firm’s audit methodology for the following factors:

i. Mergers and divestitures of portions of the practice?

ii. The impact on the firm’s system of quality control that emanated from the sale of a portion of the firm’s non-attest practice to a non-CPA owned entity, when the firm is also engaged in a service arrangement with that non-CPA owned entity. (For example, the non-CPA owned entity provides employees, office space, equipment, etc. for which the firm remits a percentage of its revenues or profits.) Also, the impact on the controls in place at the non-CPA owned entity, that are part of the firm’s system of quality control.

iii. Changes in professional standards and SEC or other regulatory requirements applicable to the firm’s practice?

iv. Results of annual inspections and peer reviews?

v. Review of litigation and regulatory enforcement actions against the firm and others?

vi. The impact that changes in technology may have on clients’ methods of doing business?

vii. Changes in clients’ industries that impact their operations?

viii. Changes in applicable AICPA membership requirements?

b. The need to see whether personnel have been appropriately informed of their responsibilities for maintaining the firm’s standards of quality in performing their duties?

---

46 See footnote 1.
c. The need to check the compliance, effectiveness, and appropriateness of the other elements of quality control in the firm's practice?

*The firm will consider and evaluate, on an ongoing basis, the appropriateness of its guidance materials and any practice aids.*

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3. Does the firm have policies and procedures to assure that the firm's practice aids, such as audit programs, forms, and checklists, are updated for new professional pronouncements and are effective for the firm's practice? If "no," describe how the firm determines that its practice aids are current.

---

4. Does the firm inform and provide guidance to its personnel, regarding new professional standards, regulatory requirements, and related changes to firm policy or practice aids? If "no," describe how personnel are kept current.

---

5. Does the firm monitor its professional development programs?

   a. If "yes," does the firm—

    i. Evaluate training programs to determine whether they are achieving their objectives, and whether those programs are appropriate for leased and per diem employees?

    ii. Review summaries of CPE records to track individual's compliance with the requirements of the AICPA and other regulatory bodies?

    iii. Consider whether the firm's professional development programs should be revised based on the results of the firm's inspection or peer review?

---

49 See footnote 1.
iv. Solicit information from its personnel regarding effectiveness of the firm’s training programs?

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b. If “no,” describe how the firm determines that its professional development programs are appropriate.

______________________________________________________________

The firm will consider and evaluate, on an ongoing basis, compliance with its policies and procedures.

6. Does the firm perform timely inspections\(^{51}\) to evaluate its compliance with its policies and procedures? If “yes,”—

a. Does the firm assign responsibility for performing the inspections to a partner or manager-level individual?

b. Does the firm’s inspections include—

   i. Appropriate tests of compliance with the firm’s policies and procedures on a sample basis?

   ii. Reviewing correspondence and documentation, and interviewing personnel\(^{52}\) to determine the firm’s compliance with its policies and procedures regarding independence, integrity, and objectivity, personnel management, acceptance and continuation of clients, engagement performance and monitoring?

   iii. Reviewing a cross section of engagements considering the following criteria:

      (a) All partners and managers with significant accounting and auditing responsibilities?

      (b) Financial institution engagements?

      (c) First-year engagements?

      (d) Significant specialized industries with emphasis given to high-risk industries?

      (e) Level of service performed (that is, audit, review, compilation, and attestation engagements)?

      (f) SEC engagements?

---

50 See footnote 1.

51 Per SQCS No. 3, par. 7, “inspection procedures to be performed at a fixed time(s) during the year covering a specified period(s) of time or as part of ongoing quality control procedures, or a combination thereof.”

52 See footnote 1.
(g) Engagements for employee benefit plans (ERISA)?

(h) Governmental engagements?

c. Does the firm summarize and communicate in a timely fashion the results of the inspections and any suggested changes to the firm's policies and procedures to appropriate levels of professional personnel?53

d. Does the firm take specific corrective actions or steps based upon the results of the inspections to assure compliance with its policies and procedures? If "no," explain rationale. 

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7. Does the firm perform pre- or postissuance reviews of selected engagements as part of its monitoring procedures? If "yes," do those procedures include—

a. For a sufficiently comprehensive selection of engagements, designating a qualified partner or management-level individual not associated with the performance of those engagements to perform a preissuance review of the engagement reports, financial statements and working papers or postissuance review of the engagement reports, financial statements and working papers shortly after release of the report?54

b. Periodically summarizing deficiencies noted as a result of the pre- or postissuance reviews and evaluate on a timely basis whether—

   i. Additional emphasis should be placed on the specific areas or industries in future engagements?

   ii. Existing policies or procedures should be modified so any deficiencies noted do not recur?

c. Periodically communicating to all professional personnel on a timely basis the summarized deficiencies noted and the agreed upon quality control changes?

---

53 See footnote 1.

54 Per SQCS No. 3, par. 9, "In small firms with a limited number of qualified management-level individuals, postissuance review of engagement working papers, reports, and client's financial statements by the person with final responsibility for the engagement may constitute inspection procedures . . . ." 

55 See footnote 1.
d. Taking specific corrective actions or steps based upon the results of the pre- or postissuance reviews to assure compliance with its policies and procedures? If “no,” explain rationale.

8. Does the firm test compliance with its policies and procedures through other monitoring procedures not described in 6 and 7 above? If “yes,” describe.

[The next page is 4401.]
PRP Section 4400

Guidelines for Review of Quality Control Policies and Procedures for Sole Practitioners With No Professional\(^1\) Staff

.01 This section of the manual contains a questionnaire that the reviewer should complete when reviewing the reviewed firm’s responses to the Quality Control Policies and Procedures Questionnaire. This questionnaire has been developed for sole practitioners with no professional staff. Completion of this questionnaire assists the reviewer in analyzing the firm’s quality control policies and procedures.

.02 The reviewer should respond directly with “Yes,” “No,” or “N/A” answers and briefly describe, where appropriate, the results of his or her evaluation of the policies and procedures the firm has in effect. Lengthy and elaborate answers are not expected.

.03 These guidelines should not be used for reviews of firms with two or more professional staff. Suggested review procedures for these firms are contained elsewhere in this section.

.04 This questionnaire was developed from the AICPA Guide for Establishing and Maintaining a System of Quality Control for a CPA Firm’s Accounting and Auditing Practice. The reviewer should be aware that each question does not relate to explicit requirements of professional standards; the questionnaire was prepared based on a model of suggested policies and procedures that firms are encouraged to consider in designing and maintaining a quality control system. As such, a “No” answer to a question does not necessarily indicate a problem with the firm’s system of quality control. A firm’s policies and procedures should be sufficient for it to obtain reasonable assurance of complying with professional standards.

---

1 The term “professional” refers to all personnel who perform professional services for which the firm is responsible, whether or not they are CPAs (SQCS No. 2, par. 3, footnote 4).
AICPA Peer Review Program

GUIDELINES FOR REVIEW OF QUALITY CONTROL POLICIES AND PROCEDURES
FOR SOLE PRACTITIONERS WITH NO PROFESSIONAL\(^2\) STAFF

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<td>The sole practitioner will adhere to applicable independence, integrity, and objectivity requirements. These requirements include regulations, interpretations, and rulings of the AICPA, state CPA societies, state boards of accountancy, state statutes, and other regulatory agencies where applicable.</td>
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1. Did you obtain an understanding of the practitioner's policies and procedures by a review of the responses to the independence, integrity, and objectivity section (part A, questions 1–5) of the Quality Control Policies and Procedures Questionnaire and by interviewing the practitioner?

2. Did you compare the practitioner's independence, integrity, and objectivity policies and procedures with professional and regulatory requirements? If "yes," describe any deficiencies noted.

3. Did the practitioner have a current edition of the AICPA Professional Standards?

4. Did the practitioner have copies of any pronouncements related to independence, integrity, and objectivity from the Journal of Accountancy or other professional publications?

5. Did you review the practitioner's and, if applicable, per diem personnel's documentation of independence on a sample of the engagements (indicate number ______)?

6. Were any situations noted where the practitioner or, if applicable, per diem personnel:
   a. Was not independent?
   b. Failed to meet the requirements of the Code of Professional Conduct, Interpretation 101-3, Performance of Nonattest Services [ET Sec. 101.05]?
   c. If "yes," did the practitioner withdraw from the engagement or appropriately qualify the report?

7. Are you satisfied that the system pertaining to this policy is appropriately designed based on the procedures performed above and the results of the engagements reviewed?

---

\( ^2 \) See footnote 1.
The sole practitioner, when acting as principal auditor, will confirm the independence of another firm performing parts of an engagement.

8. Did you obtain an understanding of the practitioner's policies and procedures by a review of the responses to the independence, integrity, and objectivity section (part A, question 6) of the Quality Control Policies and Procedures Questionnaire and by interviewing the practitioner?

9. If part of any audit was performed by other auditor(s), did you on a test basis (indicate number ________) determine whether the practitioner made sufficient inquiries concerning the professional reputation and independence of the other auditor(s)?

10. Are you satisfied that the system pertaining to this policy is appropriately designed based on the procedures performed above and the results of the engagements reviewed?

B. Personnel Management

The sole practitioner will maintain the degree of technical training and proficiency required in the circumstances.

1. Did you obtain an understanding of the practitioner's policies and procedures by a review of the responses to the personnel management section (part B, questions 1-3) of the Quality Control Policies and Procedures Questionnaire and by interviewing the practitioner?

2. Did the practitioner have the knowledge and expertise required to perform an engagement prior to accepting the engagement or the ability to obtain the knowledge and expertise?

3. Did the practitioner's policies and procedures require the practitioner to possess the following knowledge, skills and abilities (competencies) to allow him/her to fulfill their engagement responsibilities?

   a. An understanding of the role of the firm's system of quality control and the AICPA's Code of Professional Conduct.

   b. An understanding of the performance, supervision, and reporting aspects of the engagement.

   c. An understanding of the applicable accounting, auditing, or attestation professional standards, including those standards directly related to the industry in which a client operates.

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d. An understanding of the industry in which a client operates, including the industry's organization and operating characteristics, to identify the areas of high or unusual risk associated with an engagement, and to evaluate the reasonableness of industry specific estimates.

e. Skills that indicate sound professional judgement.

f. An understanding of how the organization is dependent on or enabled by information technologies, and the manner in which information systems are used to record and maintain financial information.

4. Did per diem personnel have the knowledge and expertise required to perform engagements assigned to them?

5. Are you satisfied that the system pertaining to this policy is appropriately designed based on the procedures performed above and the results of the engagements reviewed?

The sole practitioner will participate in general and industry-specific continuing professional education and professional development activities that enable him or her to satisfy responsibilities and fulfill applicable continuing professional education requirements of the AICPA and regulatory agencies.

6. Did you obtain an understanding of the practitioner's policies and procedures by a review of the responses to the personnel management section (part B, questions 4-7) of the Quality Control Policies and Procedures Questionnaire and by interviewing the practitioner?

7. Did you review the practitioner's professional development records for compliance with the requirements of the AICPA and state boards of accountancy?

8. Are you satisfied that the system pertaining to this policy is appropriately designed based on the procedures performed above and the results of the engagements reviewed?

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C. Acceptance and Continuance of Clients and Engagements

The sole practitioner will evaluate factors that have a bearing on management's integrity.

1. Did you obtain an understanding of the practitioner's policies and procedures by a review of the
Guidelines for Review of Quality Control Policies and Procedures—Sole Practitioners

responses to the acceptance and continuance of clients and engagements section (part C, questions 1-4) of the Quality Control Policies and Procedures Questionnaire and by interviewing the practitioner?

2. Did you select a sample of new clients and continuing clients (indicate number ______) and determine that the practitioner evaluated management's integrity and appropriately documented the evaluation?

3. Are you satisfied that the system pertaining to this policy is appropriately designed based on the procedures performed above and the results of the engagements reviewed?

The sole practitioner will evaluate whether the engagement can be completed with professional competence and, accordingly, undertake only those engagements that can be completed with professional competence, and appropriately consider the risk associated with providing professional services in particular circumstances.

4. Did you obtain an understanding of the practitioner's policies and procedures by a review of the responses to the acceptance and continuance of clients and engagements section (part C, questions 5 and 6) of the Quality Control Policies and Procedures Questionnaire and by interviewing the practitioner?

5. Did you select a sample of acceptance and continuance decisions (indicate number ______) and review the appropriate documentation concerning those decisions?

6. Did you select a sample of new engagements performed during the year (indicate number ______) and determine that the practitioner had the required expertise to perform the engagement?

7. Are you satisfied that the system pertaining to this policy is appropriately designed based on the procedures performed above and the results of the engagements reviewed?

The sole practitioner will obtain an understanding with the client regarding services to be performed.

8. Did you obtain an understanding of the practitioner's policies and procedures by a review of the responses to the acceptance and continuance of clients and engagements section (part C, questions 7 and 8) of the Quality Control Policies and Procedures Questionnaire and by interviewing the practitioner?

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AICPA Peer Review Program Manual

PRP §4400.05
9. Did you select a sample of engagements (indicate number ________) and review the practitioner's understanding of the engagement to be performed?

10. Are you satisfied that the system pertaining to this policy is appropriately designed based on the procedures performed above and the results of the engagements reviewed?

D. Engagement Performance

*The sole practitioner will plan engagements to meet professional and the firm's requirements.*

1. Did you obtain an understanding of the practitioner's policies and procedures by a review of the responses to the engagement performance section (part D, question 1) of the Quality Control Policies and Procedures Questionnaire and by interviewing the practitioner?

2. Are you satisfied that the system pertaining to this policy is appropriately designed based on the procedures performed above and the results of the engagements reviewed?

*The sole practitioner will perform, supervise, review, document, and communicate in accordance with the requirements of professional standards and the firm.*

3. Did you obtain an understanding of the practitioner's policies and procedures by a review of the responses to the engagement performance section (part D, questions 2–6) of the Quality Control Policies and Procedures Questionnaire and by interviewing the practitioner?

4. Are you satisfied that the system pertaining to this policy is appropriately designed based on the procedures performed above and the results of the engagements reviewed?

*The sole practitioner will identify areas and specialized situations where consultation is required and will refer to authoritative literature and practice aids and will consult, on a timely basis, with individuals outside the firm when appropriate (for example, when dealing with complex, unusual, or unfamiliar issues).*

5. Did you obtain an understanding of the practitioner's policies and procedures by a review of the responses to the engagement performance section (part D, questions 7–10) of the Quality Control Policies and Procedures Questionnaire and by interviewing the practitioner?
6. Did you review the practitioner's reference materials and determine that they were up-to-date?

7. If the practitioner uses quality control materials (for example, an audit and accounting manual or standardized forms, checklists, and questionnaires) developed internally or by some third party, were the materials suitably designed? (The reviewer may wish to obtain the most recent peer review report on the review of the design of the third party materials.)

8. Did you determine whether any standardized forms, checklists—especially, financial disclosure checklists—or questionnaires are appropriate and, if the use of any is discretionary, appropriate for the practitioner?

9. Was the practitioner's procedures for review of the engagement reports, financial statements, and working papers appropriate?

10. Did you select a sample of consultations with outside parties (indicate number _______) and determine that—

   a. All relevant facts and circumstances appear to have been provided to the party or parties consulted? If “no,” explain.

   b. The advice given appears reasonable based on the relevant facts and circumstances and consistent with professional standards? If “no,” explain.

   c. The practitioner acted in a manner consistent with professional standards and with his or her policies and procedures? If “no,” explain.

   d. The extent of required consultations were comprehensive enough for the practitioner?

11. Are you satisfied that the system pertaining to this policy is appropriately designed based on the procedures performed above and the results of the engagements reviewed?

E. Monitoring

The sole practitioner will consider and evaluate, on an ongoing basis, the relevance and adequacy of quality control policies and procedures.

1. Did you obtain an understanding of the practitioner's policies and procedures by a review of the responses to the monitoring section (part E, questions 1 and 2) of the Quality Control Policies and Procedures.
Procedures Questionnaire and by interviewing the practitioner?

2. If anything occurred that would affect the practitioner's quality control policies and procedures were the necessary changes made?

3. Are you satisfied that the system pertaining to this policy is appropriately designed based on the procedures performed above and the results of the engagements reviewed?

The sole practitioner will consider and evaluate, on an ongoing basis, the appropriateness of guidance materials and any practice aids.

4. Did you obtain an understanding of the practitioner's policies and procedures by a review of the responses to the monitoring section (part E, question 3) of the Quality Control Policies and Procedures Questionnaire and by interviewing the practitioner?

5. Did the practitioner review the practice aids to determine that they are up-to-date?

6. Are you satisfied that the system pertaining to this policy is appropriately designed based on the procedures performed above and the results of the engagements reviewed?

The sole practitioner will consider and evaluate, on an ongoing basis, the effectiveness of professional development activities.

7. Did you obtain an understanding of the practitioner's policies and procedures by a review of the responses to the monitoring section (part E, questions 4 and 5) of the Quality Control Policies and Procedures Questionnaire and by interviewing the practitioner?

8. Did you review the practitioner's CPE records and determine that the courses taken were appropriate considering the practitioner's practice?

9. Did you review the actions taken by the practitioner when there is noncompliance with the CPE requirements of the AICPA and other regulatory bodies?

10. Are you satisfied that the system pertaining to this policy is appropriately designed based on the procedures performed above and the results of the engagements reviewed?
The sole practitioner will consider and evaluate, on an ongoing basis, compliance with policies and procedures.

11. Did you obtain an understanding of the practitioner's policies and procedures by a review of the responses to the monitoring section (part E, questions 6–11) of the Quality Control Policies and Procedures Questionnaire and by interviewing the practitioner?

12. Did you review the practitioner's postissuance review of selected engagements?

13. Did you review the summarization of the findings noted on the postissuance reviews?

14. Did you review changes made to the practitioner's policies and procedures due to deficiencies noted on the postissuance reviews?

15. Did you review the practitioner's evaluation of his or her policies and procedures for independence, integrity, and objectivity, personnel management, acceptance and continuance of clients and engagements, and engagement performance?

16. Did you review the practitioner's summarization of compliance with his or her policies and procedures for independence, integrity, and objectivity, personnel management, acceptance and continuance of clients and engagements, and engagement performance?

17. Did you review changes made to the practitioner's policies and procedures due to deficiencies noted during the practitioner's review of his or her policies and procedures for independence, integrity, and objectivity, personnel management, acceptance and continuance of clients and engagements, and engagement performance?

18. Are you satisfied that the system pertaining to this policy is appropriately designed based on the procedures performed above and the results of the engagements reviewed?

Yes  No  N/A  Comments, Findings Noted

[The next page is 4501.]
PRP Section 4500

Guidelines for Review of Quality Control Policies and Procedures for Firms With Two or More Professional Staff

.01 This section of the manual contains a questionnaire that the reviewer should complete when reviewing the reviewed firm’s responses to the Quality Control Policies and Procedures Questionnaire. This questionnaire has been developed for firms with two or more professional staff. Completion of this questionnaire assists the reviewer in analyzing the firm’s quality control policies and procedures.

.02 The reviewer should respond directly with “Yes,” “No,” or “N/A” answers and briefly describe, where appropriate, the results of his or her evaluation of the policies and procedures the firm has in effect. Lengthy and elaborate answers are not expected.

.03 These guidelines should not be used for reviews of sole practitioners with no professional staff. Suggested review procedures for these firms are contained elsewhere in this section.

.04 This questionnaire was developed from the AICPA Guide for Establishing and Maintaining a System of Quality Control for a CPA Firm’s Accounting and Auditing Practice. The reviewer should be aware that each question does not relate to explicit requirements of professional standards; the questionnaire was prepared based on a model of suggested policies and procedures that firms are encouraged to consider in designing and maintaining a quality control system. As such, a “No” answer to a question does not necessarily indicate a problem with the firm’s system of quality control. A firm’s policies and procedures should be sufficient for it to obtain reasonable assurance of complying with professional standards.

.05 There may be arrangements where certain portions of the reviewed firm’s system of quality control reside at or operate in conjunction with the system of control of a non-CPA owned entity with which the reviewed firm is closely aligned through common employment, leasing of employees, equipment, facilities, etc., or other similar arrangements. This would generally include policies and procedures relating to the following elements of quality control: (1) independence, integrity and objectivity, (2) personnel management, and (3) monitoring of the elements noted in (1) and (2). If this arrangement applies to the reviewed firm, the reviewer should refer to PRP section 5200, Guidelines for Review of Quality Control Policies and Procedures for Non-CPA Owned Entities Closely Aligned With a CPA Firm. PRP section 5200 can also be used by a CPA firm performing and reporting on an attest engagement under Statement on Standards for AttestationEngagements (SSAE) No. 1.

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1 The term “professional” refers to all personnel (including leased and per diem employees who devote at least 25 percent of their time at the reviewed firm in performing audits, reviews, compilations, or other attest engagements, or those professionals who have the partner/manager level responsibility for the overall supervision and review of such engagements) who perform professional services for which the firm is responsible, whether or not they are CPAs (SQCS No. 2, par. 3, footnote 4).
### AICPA Peer Review Program

**GUIDELINES FOR REVIEW OF QUALITY CONTROL POLICIES AND PROCEDURES FOR FIRMS WITH TWO OR MORE PROFESSIONAL2 STAFF**

#### A. Independence, Integrity, and Objectivity

(If the reviewed firm is closely aligned with a non-CPA owned entity, and certain portions of this element of the reviewed firm's system of quality control reside at or operate in conjunction with the system of control of the non-CPA owned entity, the reviewer should refer to PRP section 5200, *Guidelines for Review of Quality Control Policies and Procedures for Non-CPA Owned Entities Closely Aligned With a CPA Firm.*)

Personnel3 will adhere to applicable independence, integrity, and objectivity requirements to the extent required. These requirements include regulations, interpretations, and rulings of the AICPA, state CPA societies, state boards of accountancy, state statute, the Independent Standards Board (ISB), the Securities and Exchange Commission (SEC), and other regulatory agencies where applicable.

1. Did you obtain an understanding of the firm’s policies and procedures by a review of the firm’s responses to the independence, integrity, and objectivity section (part A, questions 1–7) of the *Quality Control Policies and Procedures Questionnaire* and by interviewing the appropriate parties?

2. Did you compare the firm’s independence, integrity, and objectivity policies and procedures with professional and regulatory requirements? If “yes,” describe any deficiencies noted.

3. Were any situations noted where the practitioner or, if applicable, per diem personnel:

   a. Was not independent?

   b. Failed to meet the requirements of the Code of Professional Conduct, Interpretation 101-3, *Performance of Nonattest Services* [ET Sec. 101.05]?

   c. If “yes,” did the firm withdraw from the engagement or appropriately qualify the report?

4. Are you satisfied that the system pertaining to this policy is appropriately designed based on the procedures performed above and the results of the engagements reviewed?

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2 See footnote 1.
3 See footnote 1.

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PRP §4500.06  Copyright © 2004, American Institute of Certified Public Accountants, Inc.
Personnel\(^4\) will be familiar with policies and procedures relating to independence, integrity, and objectivity.

5. Did you obtain an understanding of the firm’s policies and procedures by a review of the firm’s responses to the independence, integrity, and objectivity section (part A, questions 8–11) of the Quality Control Policies and Procedures Questionnaire and by interviewing the appropriate parties?

6. Were the procedures the firm follows to provide reasonable assurance that new or revised rules, interpretations, or rulings on independence, integrity, and objectivity matters considered appropriate in its practice?

7. Did you select a sample of situations in which independence, integrity, and objectivity questions arose during the year being reviewed (indicate number_______) and consider whether the resolution of such questions appears appropriate?

8. Did you select a sample of professional personnel\(^5\) (indicate number_______) and review the written representations obtained by the firm regarding independence, integrity, and objectivity, if required by firm policy?

9. Did you interview selected staff (indicate number_______), review appropriate documentation, and determine that the firm has advised all professional personnel\(^6\) on a timely basis about entities to which the independence rules apply and that professional personnel are familiar with the firm’s independence, integrity, and objectivity policies and procedures? (See separate interview guidelines.)

10. Did you determine by review of appropriate documentation and interviews with selected staff (see separate interview guidelines) that the firm has advised all professional personnel\(^6\) on a timely basis as to any changes in the firm’s client list?

11. Are you satisfied that the system pertaining to this policy is appropriately designed based on the procedures performed above and the results of the engagements reviewed?

\(^4\) See footnote 1.
\(^5\) See footnote 1.
\(^6\) See footnote 1.
The firm, when acting as principal auditor, will confirm the independence of another firm performing parts of an engagement.

12. Did you obtain an understanding of the firm's policies and procedures by a review of the firm's responses to the independence, integrity, and objectivity section (part A, question 12) of the Quality Control Policies and Procedures Questionnaire and by interviewing the appropriate parties?

13. Did you compare the firm's independence, integrity, and objectivity policies and procedures with professional and regulatory requirements? If "yes," describe any deficiencies noted.

14. If part of any audit was performed by other auditor(s), did you on a test basis (indicate number _______) determine whether the firm made sufficient inquiries concerning the professional reputation and independence of the other auditor(s)?

15. Are you satisfied that the system pertaining to this policy is appropriately designed based on the procedures performed above and the results of the engagements reviewed?

B. Personnel Management (If the reviewed firm is closely aligned with a non-CPA owned entity, and certain portions of this element of the reviewed firm's system of quality control reside at or operate in conjunction with the system of control of the non-CPA owned entity, the reviewer should refer to PRP section 5200, Guidelines for Review of Quality Control Policies and Procedures for Non-CPA Owned Entities Closely Aligned With a CPA Firm.)

Personnel7 who are hired will possess the appropriate characteristics to enable them to perform competently.

1. Did you obtain an understanding of the firm's policies and procedures by a review of the firm's responses to the personnel management section (part B, questions 1-4) of the Quality Control Policies and Procedures Questionnaire and by interviewing the appropriate parties?

2. Did you select a sample of new hires8 (indicate number _______), including those joining the firm

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7 See footnote 1.
8 See footnote 1.
through mergers or at supervisory levels, obtain each individual’s personnel file, and—

a. Review the documentation and evaluate whether the individual possesses the desired attributes, achievements, and experience required by the firm? If “no,” did you ascertain from other documentation or by inquiry why an exception was made?

b. Determine whether the background information and other documentation required by firm policy was obtained?

c. Select one or more of these new hires for an interview? (See separate interview guidelines.)

3. Are you satisfied that the system pertaining to this policy is appropriately designed based on the procedures performed above and the results of the engagements reviewed?

_The firm will make personnel assignments based on the degree of technical training and proficiency required in the circumstances, including the competence of the practitioner-in-charge of the firm’s accounting, auditing and attestation engagements, and the nature and extent of supervision to be provided._

4. Did you obtain an understanding of the firm’s policies and procedures by a review of the firm’s responses to the personnel management section (part B, questions 5 and 6) of the Quality Control Policies and Procedures Questionnaire and by interviewing the appropriate parties?

5. Does the firm have policies and procedures that specify the knowledge, skills and abilities (competencies) the practitioner-in-charge of accounting, auditing or attestation engagements (i.e., the partner or other person who is responsible for supervising those types of engagements and signing or authorizing someone to sign the accountant’s report on such engagements) should possess to fulfill their engagement responsibilities? Do such competencies for the practitioner-in-charge include:

   a. An understanding of the role of the firm’s system of quality control and the AICPA’s Code of Professional Conduct.

   b. An understanding of the performance, supervision, and reporting aspects of the engagement.

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9 See footnote 1.
c. An understanding of the applicable accounting, auditing, or attestation professional standards, including those standards directly related to the industry in which a client operates.

d. An understanding of the industry in which a client operates, including the industry’s organization and operating characteristics, to identify the areas of high or unusual risk associated with an engagement, and to evaluate the reasonableness of industry specific estimates.

e. Skills that indicate sound professional judgement.

f. An understanding of how the organization is dependent on or enabled by information technologies, and the manner in which information systems are used to record and maintain financial information.

6. Did you interview selected professional staff\(^\text{10}\) (indicate number _______) and determine whether they believe they had the technical training and proficiency required to perform the assignments received? (See separate interview guidelines.)

7. Are you satisfied that the system pertaining to this policy is appropriately designed based on the procedures performed above and the results of the engagements reviewed?

Personnel\(^\text{11}\) will participate in general and industry-specific continuing professional education and professional development activities that enable them to satisfy responsibilities assigned and fulfill applicable continuing professional education requirements of the AICPA and regulatory agencies.

8. Did you obtain an understanding of the firm’s policies and procedures by a review of the firm’s responses to the personnel management section (part B, questions 7–13) of the Quality Control Policies and Procedures Questionnaire and by interviewing the appropriate parties?

9. Did you review the firm’s CPE records on a test basis (indicate number_______) and consider whether they demonstrate that—

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\(^{10}\) See footnote 1.

\(^{11}\) See footnote 1.
a. Professional personnel\textsuperscript{12} participated in CPE related to accounting and auditing assignments including specialized industries?

b. The firm was in compliance with its plans for its CPE program and with the CPE requirements of—
   i. Board(s) of accountancy in state(s) in which the firm's professional staff\textsuperscript{13} is licensed?
   ii. AICPA (if applicable)?
   iii. State CPA society (if applicable)?
   iv. Government Auditing Standards—the “Yellow Book” (if applicable)?

c. The firm is taking appropriate action to correct situations where professional personnel\textsuperscript{14} are not in compliance with CPE requirements?

10. If the firm presents a significant amount of in-house training, did you select a sample of such programs for review (indicate number \underline{______}) and determine whether—

   a. The developer is qualified, and has obtained any necessary approvals? For example, a sponsor number from the appropriate state board of accountancy.

   b. The course is technically accurate, current, and contributes to the professional competence of the attendees?

   c. The instructor is qualified?

   d. The participants and instructor evaluate the course, and appropriate action is taken when the evaluations are not favorable?

11. Did you interview selected professional staff\textsuperscript{15} and (indicate number \underline{______}) and obtain their impressions of the firm's CPE function and their on-the-job training, determine whether new professional standards and guidance materials are made available to them on a timely basis, determine whether they participate in professional development activities? (See separate interview guidelines.)

\textsuperscript{12} See footnote 1.
\textsuperscript{13} See footnote 1.
\textsuperscript{14} See footnote 1.
\textsuperscript{15} See footnote 1.
12. Are you satisfied that the system pertaining to this policy is appropriately designed based on the procedures performed above and the results of the engagements reviewed?

*Personnel* selected for advancement will have the qualifications necessary to fulfill the responsibilities they will be called on to assume.

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13. Did you obtain an understanding of the firm's policies and procedures by a review of the firm's responses to the personnel management section (part B, questions 14–18) of the Quality Control Policies and Procedures Questionnaire and by interviewing the appropriate parties?

14. Did you review job descriptions and responsibilities, evaluate advancement criteria, and determine whether they are reasonable for the firm?

15. Did you select a sample of professional personnel (indicate number _______), review their personnel files, personnel evaluations, or other documentation, and determine whether staff members are reviewed, evaluated, and promoted in accordance with firm policy?

16. Did you evaluate the effectiveness of the method used to evaluate owners and whether they fulfill the responsibilities assigned to them, including whether they possess the knowledge, skills and abilities (competencies) necessary to enable them to be qualified to perform the firm's accounting, auditing or attestation engagements? If "yes," did you interview selected owners to assist in evaluating the effectiveness of the method used?

17. Did you interview selected professional staff (indicate number ______) and determine their awareness of the firm's advancement policies and procedures and whether they are followed? (See separate interview guidelines.)

18. Are you satisfied that the system pertaining to this policy is appropriately designed based on the procedures performed above and the results of the engagements reviewed?

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16 See footnote 1.
17 See footnote 1.
18 See footnote 1.
C. Acceptance and Continuance of Clients and Engagements

*The firm will evaluate factors that have a bearing on management's integrity.*

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<td>1.</td>
<td>Did you obtain an understanding of the firm's policies and procedures by a review of the firm's responses to the acceptance and continuance section (part C, questions 1–4) of the <em>Quality Control Policies and Procedures Questionnaire</em> and by interviewing the appropriate parties?</td>
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<td>2.</td>
<td>Did you select a sample of new clients and continuing clients (indicate number ______) and determine that the firm evaluated management's integrity and appropriately documented the evaluation?</td>
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<td>3.</td>
<td>Are you satisfied that the system pertaining to this policy is appropriately designed based on the procedures performed above and the results of the engagements reviewed?</td>
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*The firm will evaluate whether the engagement can be completed with professional competence and, accordingly, undertake only those engagements that can be completed with professional competence, and appropriately consider the risk associated with providing professional services in particular circumstances.*

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<td>4.</td>
<td>Did you obtain an understanding of the firm's policies and procedures by a review of the firm's responses to the acceptance and continuance section (part C, questions 5–8) of the <em>Quality Control Policies and Procedures Questionnaire</em> and by interviewing the appropriate parties?</td>
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<td>5.</td>
<td>Did you select a sample of acceptance and continuance decisions (indicate number ______), review the documentation for those decisions, and determine that the firm is complying with its own policies and procedures and with the requirements of professional standards?</td>
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<td>6.</td>
<td>Did you select a sample of new engagements performed during the year (indicate number ______) and determine that the firm had the required expertise to perform the engagements?</td>
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<td>7.</td>
<td>Did you select a sample of continuing engagements performed during the year (indicate number ______) and determine that the firm still had the required expertise to perform the engagement?</td>
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8. If any client relationships were discontinued during the year under review, were they handled appropriately and documented?

9. Did you interview selected professional staff\(^{19}\) (indicate number ______) and determine their awareness of the firm's acceptance and continuance of clients and engagements' policies and procedures and whether they are followed? (See separate interview guidelines.)

10. Are you satisfied that the system pertaining to this policy is appropriately designed based on the procedures performed above and the results of the engagements reviewed?

   The firm will obtain an understanding with the client regarding services to be performed.

11. Did you obtain an understanding of the firm's policies and procedures by a review of the firm's responses to the acceptance and continuance of clients and engagements section (part C, question 9) of the Quality Control Policies and Procedures Questionnaire and by interviewing the appropriate parties?

12. Did you select a sample of engagements (indicate number ______) and review the firm's understanding of the engagement to be performed?

13. Are you satisfied that the system pertaining to this policy is appropriately designed based on the procedures performed above and the results of the engagements reviewed?

D. Engagement Performance

   The engagement will be planned to meet professional, regulatory, and firm requirements.

1. Did you obtain an understanding of the firm's policies and procedures by a review of the firm's responses to the engagement performance section (part D, questions 1 and 2) of the Quality Control Policies and Procedures Questionnaire and by interviewing the appropriate parties?

2. Are you satisfied that the system pertaining to this policy is appropriately designed based on the procedures performed above and the results of the engagements reviewed?

\(^{19}\) See footnote 1.
The engagement will be performed, supervised, reviewed, documented, and communicated in accordance with the requirements of professional standards, regulatory authorities, and the firm.

3. Did you obtain an understanding of the firm’s policies and procedures by a review of the firm’s responses to the engagement performance section (part D, questions 3–9) of the Quality Control Policies and Procedures Questionnaire and by interviewing the appropriate parties?

4. If the firm uses quality control materials (for example, an audit and accounting manual or standardized forms, checklists, and questionnaires) developed internally or by some third party, were the materials suitably designed? (The reviewer may wish to obtain the most recent peer review report on the review of the design of the third-party materials.)

5. Did you determine whether any standardized forms, checklists—especially, financial disclosure checklists—or questionnaires are appropriate and, if the use of any is discretionary, appropriate for the firm?

6. Were the firm’s procedures for review of the engagement reports, financial statements, and working papers appropriate?

7. Were any unusual accounting or auditing problems related to clients obtained in a merger during the year under review encountered? If "yes," was the firm’s assessment and treatment of such matters adequate?

8. Were the firm’s policies and procedures adequate for training and integrating the professional personnel\(^\text{20}\) of the merged-in practice into the reviewed firm’s quality control policies and procedures?

9. Are you satisfied that the system pertaining to this policy is appropriately designed based on the procedures performed above and the results of the engagements reviewed?

The firm will identify areas and specialized situations where consultation is required and will require personnel\(^\text{21}\) to refer to authoritative literature and practice aids and to consult, on a timely basis, with individuals within or outside the firm when appropriate (for example, when dealing with complex, unusual, or unfamiliar issues).

10. Did you obtain an understanding of the firm’s policies and procedures by a review of the firm’s responses to the engagement performance section

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
<th>Comments, Findings Noted</th>
</tr>
</thead>
</table>

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\(^{20}\) See footnote 1.  
\(^{21}\) See footnote 1.
(part D, questions 10–16) of the Quality Control Policies and Procedures Questionnaire and by interviewing the appropriate parties?

11. Did you select a sample of consultations (indicate number ______) and determine that—

   a. All relevant facts and circumstances appear to have been provided to the party or parties consulted? If “no,” explain.

   b. The advice given appears reasonable based on the relevant facts and circumstances and consistent with professional standards? If “no,” explain.

   c. The firm acted in a manner consistent with professional standards and with the firm’s policies and procedures? If “no,” explain.

   d. The extent of required consultations was appropriately comprehensive?

12. Were the firm’s reference materials for its audit and accounting practice sufficiently comprehensive and current?

13. Did the reference materials include recent pronouncements and literature appropriate for the firm’s specialties and are they updated on a timely basis?

14. Was the guidance issued regarding reports on the application of accounting principles under SAS No. 50 appropriate? Did the firm—

   a. Comply with its requirements and with professional standards?

   b. Issue a report on the application of accounting principles that is appropriate in the circumstances?

15. Did you interview selected professional staff\(^2\) and (indicate number ______) determine their awareness of the firm’s engagement performance policies and procedures and whether they are followed? (See separate interview guidelines.)

16. Are you satisfied that the system pertaining to this policy is appropriately designed based on the procedures performed above and the results of the engagements reviewed?

---

\(^2\) See footnote 1.
Guidelines for Review of Quality Control Policies—Two or More Professional Staff

E. **Monitoring** (If the reviewed firm is closely aligned with a non-CPA owned entity, and certain portions of this element of the reviewed firm’s system of quality control reside at or operate in conjunction with the system of control of the non-CPA owned entity, the reviewer should refer to PRP section 5200, *Guidelines for Review of Quality Control Policies and Procedures for Non-CPA Owned Entities Closely Aligned With a CPA Firm.*)

*The firm will consider and evaluate, on an ongoing basis, the relevance and adequacy of its quality control policies and procedures.*

1. Did you obtain an understanding of the firm’s policies and procedures by a review of the firm’s responses to the monitoring section (part E, questions 1 and 2) of the *Quality Control Policies and Procedures Questionnaire* (the “questionnaire”) and by interviewing the appropriate parties?

2. If anything occurred (see part E, question 2.a of the “questionnaire”) that would affect the firm’s quality control policies and procedures, were the necessary changes made?

3. Are you satisfied that the system pertaining to this policy is appropriately designed based on the procedures performed above and the results of the engagements reviewed?

*The firm will consider and evaluate, on an ongoing basis, the appropriateness of its guidance materials and any practice aids.*

4. Did you obtain an understanding of the firm’s policies and procedures by a review of the firm’s responses to the monitoring section (part E, questions 3 and 4) of the *Quality Control Policies and Procedures Questionnaire* and by interviewing the appropriate parties?

5. Did the firm review its practice aids to determine that they were up-to-date?

6. Did the firm review its method of informing personnel of changes to professional standards, regulatory requirements, and any related changes to firm policy and practice aids?

7. Are you satisfied that the system pertaining to this policy is appropriately designed based on the procedures performed above and the results of the engagements reviewed?

---

23 See footnote 1.
The firm will consider and evaluate, on an ongoing basis, the effectiveness of professional development programs.

8. Did you obtain an understanding of the firm's policies and procedures by a review of the firm's responses to the monitoring section (part E, question 5) of the Quality Control Policies and Procedures Questionnaire and by interviewing the appropriate parties?

9. Did you ascertain whether actions were taken as a result of evaluations of in-house training programs and determine if they were achieving their objectives?

10. Did the firm interview a sample of its professional personnel\(^\text{24}\) regarding the effectiveness of its training programs?

11. Did you review the actions taken by the firm where staff were not in compliance with CPE requirements of the AICPA and other regulatory bodies?

12. Are you satisfied that the system pertaining to this policy is appropriately designed based on the procedures performed above and the results of the engagements reviewed?

The firm will consider and evaluate, on an ongoing basis, compliance with its policies and procedures.

13. Did you obtain an understanding of the firm's policies and procedures by a review of the firm's responses to the monitoring section (part E, questions 6–8) of the Quality Control Policies and Procedures Questionnaire and by interviewing the appropriate parties?

14. Did you review the available documentation supporting the monitoring procedures performed since the last peer review, if any, and evaluate whether—

   a. Those who conducted monitoring procedures had sufficient training and experience?

   b. The procedures performed were timely and covered—

      i. Reviewing and testing compliance with firm quality control policies and procedures relating to all the elements of quality control?

      ii. Reviewing an appropriate number of offices? (Reviewers should ask the reviewed firm about any requirements of relevant

\(^{24}\) See footnote 1.
state boards of accountancy that must be met for the peer review to be accepted by such state boards as meeting its requirements.)

iii. Reviewing an appropriate number and type of engagements for compliance with professional standards?

c. The findings from the monitoring procedures were appropriately summarized and documented?

d. The materials used in carrying out the monitoring procedures, such as questionnaires, programs, and checklists are adequate?

e. Appropriate corrective action was taken on monitoring procedures findings, including, if necessary, action pursuant to the requirements of AICPA, Professional Standards, AU section 390 and AU section 561, or supplementing the working papers to document the procedures performed?

15. If the firm’s monitoring procedures include the conduct of inspection procedures,—

a. Were inspection procedures performed timely?

b. Were the criteria used in selecting offices and engagements for review and for selecting individuals within or outside the firm to carry out such procedures appropriate?

c. Does the firm monitor whether planned corrective actions as a result of inspection procedures were actually implemented?

d. Did you review the available documentation supporting annual inspections performed since the last peer review, if any, and evaluate whether—

i. The inspectors or reviewer had sufficient training and experience?

ii. The inspection procedures performed were timely and covered—

   (a) Reviewing and testing compliance with firm quality control policies and procedures relating to all the elements of quality control?

   (b) Reviewing an appropriate number of offices? (Reviewers should ask the reviewed firm about any requirements of relevant state boards of accountancy that must be met for the peer review to
be accepted by such state boards as meeting its requirements.)

(c) Reviewing an appropriate number and type of engagements for compliance with professional standards?

iii. The findings from the inspection procedures were appropriately summarized and documented?

iv. The materials used in carrying out the inspection procedures, such as questionnaires, programs, and checklists are adequate?

v. Appropriate corrective action was taken on inspection findings, including, if necessary, action pursuant to the requirements of AICPA, Professional Standards, AU section 390 and AU section 561, or supplementing the working papers to document the procedures performed?

16. If the firm's monitoring procedures include either inspections or pre- or postissuance reviews, did you review a sample and determine—

a. If the criteria used in selecting engagements for review and for selecting individuals within or outside the firm to carry out such procedures were appropriate?

b. Whether planned corrective actions were actually implemented?

17. Did you interview selected professional staff\(^2\) (indicate number ________) and determine whether the findings from the monitoring procedures under review were communicated and considered by staff? (See separate interview guidelines.)

18. Are you satisfied that the system pertaining to this policy is appropriately designed based on the procedures performed above and the results of the engagements reviewed?

[The next page is 4601.]

\(^2\) See footnote 1.
PRP Section 4600
Staff Interview Questionnaire

.01 The review of a CPA firm’s quality control policies and procedures require that professional personnel1 be interviewed. The objective of these interviews is to provide corroborative evidence that certain policies and procedures have been properly communicated.

.02 When soliciting information, reviewers should consider the nature of the topic, the level of the person being interviewed, and the size of the firm.

.03 The questionnaire developed to guide the reviewer in conducting interviews is included in this section of the manual. It should be tailored as the interviewer deems appropriate.

.04 The individuals interviewed should have varying levels of experience and background. The number of individuals interviewed will be affected by the size and nature of the reviewed firm’s practice.

.05 There may be arrangements where certain portions of the reviewed firm’s system of quality control reside at or operate in conjunction with the system of control of a non-CPA owned entity with which the reviewed firm is closely aligned through common employment leasing of employees, equipment, facilities, etc., or other similar arrangements. This would generally include policies and procedures relating to the following elements of quality control: (1) independence, integrity and objectivity, (2) personnel management, and (3) monitoring of the elements noted in (1) and (2). If this arrangement applies to the reviewed firm, the reviewer should refer to PRP section 5300, Staff Interview Questionnaire For Non-CPA Owned Entities Closely Aligned With a CPA Firm. PRP section 5300 can also be used by a CPA firm performing and reporting on an attest engagement under Statement on Standards for Attestation Engagements (SSAE) No. 1.

1 The term “professional” refers to all individuals (including leased and per diem employees who devote at least 25 percent of their time at the reviewed firm in performing audits, reviews, compilations, or other attest engagements, or those professionals who have the partner/manager level responsibility for the overall supervision or review of such engagements) who perform professional services for which the firm is responsible, whether or not they are CPAs (SQCS No. 2, par. 3, footnote 4).
The review of a CPA firm's quality control policies and procedures requires that professional personnel be interviewed. Interviews with firm personnel are generally contemplated as a corroborative technique rather than as a means for initially gathering information. The reviewer should consider the nature of the topic, the level of the person being interviewed, and the size of the firm when soliciting information. This questionnaire lists suggested interview questions that may be tailored as the interviewer deems appropriate. Interviews can also elicit reactions or perceptions of which the firm should be, but is not aware. The interviewee should be advised that no record is kept of his or her name.

<table>
<thead>
<tr>
<th>Office Code No.</th>
<th>Interviewee Code</th>
<th>Level of Interviewee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leased/Per Diem Employee?</td>
<td>Yes</td>
<td>No</td>
</tr>
</tbody>
</table>

**A. Independence, Integrity, and Objectivity**

1. How does the firm inform you of its policies and procedures to which the firm's independence policies apply?

2. Where independence is a prerequisite for the performance of an engagement, how would you ascertain that the firm is independent?
   a. If you had a question on an independence matter, what would you do?
   b. With regard to engagements requiring independence, are you aware of any instances where the firm, on behalf of the client (specify client)—
      i. Performed management functions or made management decisions?
      ii. Authorized, executed or consummated a transaction, or otherwise exercised authority?
      iii. Prepared source documents?
      iv. Had custody of client assets?
      v. Supervised the client’s employees in the performance of their normal duties?
      vi. Served as the client’s stock transfer or escrow agent, registrar, general counsel or its equivalent?

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2 See footnote 1.

3 The reviewer should ensure that the individual being interviewed responds to the questionnaire as related to the work he or she performs for the reviewed firm.
<table>
<thead>
<tr>
<th>Suggested Questions</th>
<th>Responses</th>
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<tbody>
<tr>
<td>3. What types of nonattest services does the firm provide to its accounting and auditing clients?</td>
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<tr>
<td>4. Are you aware of any engagements where the firm provided nonattest services and as a result the firm—</td>
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<tr>
<td>a. Was not independent?</td>
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<tr>
<td>b. Failed to meet the requirements of the Code of Professional Conduct, Interpretation 101-3, Performance of Nonattest Services [ET Sec. 101.05]?</td>
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<td>If “yes,” which engagements? Specify why.</td>
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<td>5. Are you informed on a timely basis of any changes in the firm’s client list?</td>
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<td>6. Has another firm ever performed a segment of an engagement on which you have been involved and for which your firm was the principal auditor? Yes__ No__. If “yes,” has the independence of that firm been confirmed? Yes__ No__. If “no,” why?</td>
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<td>7. In the performance of professional services you have been involved with do you believe firm members maintained objectivity and integrity, stayed free of conflicts of interest, and did not knowingly misrepresent facts or subordinate judgment to others? Yes__ No__. If “no,” why?</td>
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<td>8. Where applicable, did you adhere to the independence requirements including regulations, interpretations, and rulings of the AICPA, state CPA society, state board of accountancy, state society, the Independent Standards Board (ISB), the Securities and Exchange Commission (SEC), and other regulatory agencies? Yes__ No__. If “no,” why?</td>
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<tr>
<td>9. Have you represented whether you are independent with respect to the CPA firm’s clients? If so, how were these representations provided by you to the CPA firm’s representative (e.g., memo, questionnaire, or some other form of documentation)?</td>
<td></td>
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</tbody>
</table>
10. How often do you provide documented forms of representation to the CPA firm’s representative, which states whether you are independent with respect to the CPA firm’s clients (e.g., monthly, quarterly, annually, etc.)?

B. Personnel Management

1. How were you informed about the quality control policies and procedures that are relevant to you?

2. If professional staff being interviewed is involved in the recruiting process inquire into—
   
a. Whether he or she was informed about the firm’s hiring objectives prior to becoming involved in the hiring process? Yes ___ No ____. If “yes,” how were you apprised of this information?

   b. The attributes, achievements, and experiences entry-level and experienced hires are expected to possess to enable them to perform competently within the firm.

   c. What training did he or she receive prior to becoming involved in the recruiting process?

3. What types of assignments have you had in the past year?

4. Did you believe that the assignments you have received were based on the degree of training and proficiency you possessed at the time, and were commensurate with the nature and extent of supervision to be provided?

5. What types of courses and industry-specific continuing professional education and professional development activities did you participate in during the last year, and do you believe that these activities contributed to your ability to perform the responsibilities assigned to you?

6. Have you considered the specific continuing professional education requirements of the AICPA, state board of accountancy, and regulatory agencies such as GAO, DOL, etc.? Yes ___ No ____. If “no,” briefly describe why.

7. Do you believe that the on-the-job training that you received during the year under review was adequate to enable you to perform the responsibilities assigned

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4 See footnote 1.
to you on general and industry-specific engagements? Yes___ No___. If “no,” briefly describe why.

8. If you received such on-the-job training from somewhere other than the CPA firm, where was such training obtained? Was such training adequate to enable you to perform the responsibilities assigned to you on general and industry-specific engagements? Yes___ No___. If “no,” briefly describe why.

9. Where applicable, are new professional standards, independence requirements, and guidance materials distributed on a timely basis?

10. What are the responsibilities of your position?

11. What are the qualifications deemed necessary for promotion to the level immediately above you?

12. How often have you been evaluated during the last year and do you believe that these evaluations, if any, were performed on a timely professional basis?

13. To what extent do you receive written or oral feedback on your performance? Do you believe that this is constructive?

C. Acceptance and Continuance of Clients and Engagements

1. What conditions on an engagement would cause you to bring them to the attention of your supervisor so that a decision could be made whether the firm’s relationship with the client should be continued?

2. Does the firm obtain an understanding with its clients, whether written or oral, regarding the services to be performed?

D. Engagement Performance

1. Do you believe that the engagements on which you have participated have been properly planned to meet professional, regulatory, and firm requirements? Yes___ No___. If “no,” explain why. Can you give some examples of planning considerations for engagements on which you have participated?
2. In planning an engagement, what forms should be prepared and what procedures should be performed? (Applicable only to staff with planning responsibilities.)

3. To what extent have you been supervised on the engagements on which you have participated and do you believe that the degree of supervision was adequate?

4. To what extent have you supervised other people on the engagements on which you have participated and do you believe you were adequately trained to carry out that responsibility?

5. Do you refer to authoritative literature or practice aids while performing engagements?

6. How do you determine the procedures to perform, and the form and content of working papers for engagements on which you participate?

7. If you do not know the answer to an accounting or auditing question, what would you do?

8. Has the firm identified any individuals\(^5\) within or outside the firm as (industry) specialist? Yes____ No____. If “yes,” give a few examples. How were you apprised of them?

9. Has the firm identified any specialized situations requiring consultation? Yes____ No____. If “yes,” give a few examples. If “no,” what are some situations which you believe make it necessary to consult or refer to a technical practice aid? How have you been apprised of situations requiring consultation with a specialist? What degree of authority is accorded the opinion of specialists, if any, and how are any differences of opinion with such specialists resolved?

10. To what extent is your work reviewed and by whom is such work reviewed?

11. How are differences of professional judgment among members of an engagement team resolved?

\(^5\) See footnote 1.
E. Monitoring

1. If the CPA firm performs annual inspections:

   a. Were any of the engagements on which you worked selected for review during the most recent inspection and the one immediately proceeding it? Yes___ No__. If “yes,” were you made aware of the findings concerning your work and were they considered on the subsequent engagement?

   b. What were the findings of the most recent inspection and how were these communicated to you?

2. If the CPA firm performs pre- or postissuance reviews of engagements:

   a. Were any of the engagements on which you worked selected for review? Yes___ No__. If “yes,” were you made aware of the findings concerning your work? If “yes,”—

      i. Were they immediately corrected for preissuance reviews?

      ii. Were they considered on the subsequent engagement for postissuance reviews?

      iii. If “no” to both questions above, why?

Date of Interview _________________________________

Interviewer's Signature _________________________________

Date Interview Questionnaire Reviewed by Team Captain _________________________________

Team Captain's Signature _________________________________

[The next page is 4721.]
PRP Section 4700

Summary Review Memorandum—System Reviews

Contents

Section                      Paragraph
4700  Summary Review Memorandum—System Reviews                      .01–.04
      Instructions
                  Summary Review Memorandum—System Reviews                      .05
      Attachments
                  1. System Review Engagement Statistics Data Sheet             .06
                  2. Cost Information                                           .07

AICPA Peer Review Program Manual
Instructions

.01 This section of the Manual contains a Summary Review Memorandum for system reviews. The purpose of the Summary Review Memorandum is to document (1) the planning of the review, (2) the scope of the work performed, (3) the findings and conclusions supporting the report and letter of comments, if any, and (4) the comments communicated to senior management of the reviewed firm that were not deemed of sufficient significance to include in the letter of comments. This documentation is required to enable the state CPA society administering the review to exercise its oversight function in an effective and consistent manner.

.02 The attached form, if properly completed, ordinarily should provide the documentation necessary to meet these objectives. If there is insufficient space to fully describe any matters, additional sheets should be used and attached to the form.

.03 Questions regarding the use of this form or any other materials or about the review in general should be directed to the staff of the state CPA society administering the review or to such other individuals the administering entity may identify for that purpose.

.04 This form must be completed on all system reviews in the AICPA peer review program and must be submitted to the administering entity, whether those reviews are conducted by a review team formed by a firm under review, by a state CPA society participating in the program (a committee-appointed review team), or by an authorized association of CPA firms.
AICPA Peer Review Program

SUMMARY REVIEW MEMORANDUM—SYSTEM REVIEWS

Reviewed Firm's Name

Reviewed Firm's Address

Peer Review Year End

I. Description of Firm
   A. Professional Staff Profile (if the firm has more than one office, provide a breakdown by office):

      | Office 1 | Office 2 | Office 3 | Total |
      |-----------|----------|----------|-------|
      Partners (or equivalent) |         |          |          |       |
      Managers (or equivalent) |         |          |          |       |
      Other Professionals1 |         |          |          |       |
      Leased/Per Diem1 |         |          |          |       |

   B. Indicate extent of industry specializations, if any:

   C. Service arrangements, if any, with non-CPA owned entities with which the reviewed firm is closely aligned through common employment, leasing of employees, equipment, facilities, etc., or other similar arrangements.

II. Planning the Review
   A. Composition of Review Team:
      1. Team Captain ____________________________________________________________
         Firm ____________________________________________________________
         Position ____________________________________________________________
         Areas of Experience2 _________________________________________________
      2. Team Member __________________________________________________________
         Firm ____________________________________________________________
         Position __________________________________________________________
         Areas of Experience2 _________________________________________________
      3. Team Member __________________________________________________________
         Firm ____________________________________________________________
         Position __________________________________________________________
         Areas of Experience2 _________________________________________________

1 The term "professional" refers to all personnel who perform professional services for which the firm is responsible whether or not they are CPAs (SQCS No. 2, par. 3, footnote 4).

2 (Leased and per diem staff are those professionals who devote at least 25 percent of their time at the reviewed firm in performing audits, reviews, compilations, or other attest engagements, or those professionals who have the partner/manager level responsibility for the overall supervision or review of such engagements.)

AICPA Peer Review Program Manual

PRP §4700.05
B. Describe basis for and degree of reliance, if any, on the firm's inspection program. (Reliance should not be placed on the firm's inspection program when one was not performed during the current year.)

________________________________________________________________________
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________

C. Was the firm previously reviewed? Yes _____ No ____. If "yes," indicate, based on your evaluation of the actions taken by the firm in response to the matters in the prior report and letter of comments, whether such matters required additional emphasis in the current review and how that was done.

________________________________________________________________________
________________________________________________________________________
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________________________________________________________________________

D. Development of Review Program:
1. Describe any significant deviations from AICPA peer review questionnaires and checklists and explain reason:

________________________________________________________________________
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________
2. Describe the significant elements of the system of quality control of entities related to the firm, such as associations, joint ventures, non-CPA owned entities, and any other structures that affect the firm's system of quality control for its audit, review, compilation, or other attest engagements.

3. Describe the risk assessment of the firm's accounting and auditing practice and its system of quality control (including the quality control elements for associations, joint ventures, non-CPA owned entities, etc., that impact the firm's system of quality control), the number of offices and engagements selected for review, and the basis for that selection in relation to the risk assessment. (Attach a memorandum if more space is needed.)

E. Important Dates:

Commencement of Review

Exit Conference

Issuance of report and, if applicable, letter of comments

Mailing of working papers (committee-appointed review teams only) or Team Captain Checklist and SRM to the state CPA society administering the review
III. Scope of Work Performed
   A. Accounting and Auditing Statistics.\(^3\)

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<thead>
<tr>
<th></th>
<th>Total</th>
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<th>Offices</th>
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<td>No. of Engs.</td>
<td>No. of Hrs.</td>
<td>No. of Engs.</td>
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<td>Auditing Standards</td>
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<tr>
<td>Single Audit Act (A-133) Engagements</td>
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<tr>
<td>All Other</td>
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<td>ERISA</td>
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<td>SEC</td>
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<td>Other entities, subject to SEC independence rules (not included above)</td>
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<td>Other</td>
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<td>SSARS—</td>
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<td>Reviews</td>
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<td>Compilations With</td>
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<td>Disclosures</td>
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<td>Compilations Omit</td>
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<td>Disclosures</td>
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<tr>
<td>Financial Forecast and Projection—Examination</td>
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<tr>
<td>Financial Forecast and Projection—Other</td>
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<tr>
<td>Agreed-Upon Procedures</td>
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<tr>
<td>Other</td>
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\(^3\) The number of engagements should include each monthly, quarterly and annual report issued.

\(^4\) Includes only audits of entities subject to Government Auditing Standards ("Yellow Book"), including audits subject to OMB Circular A-128.
B. Engagements Reviewed.3

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>Offices</th>
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<tbody>
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<td></td>
<td>Hrs.</td>
<td>No. of</td>
</tr>
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</table>

**SAS—**
Audits subject to *Government Auditing Standards.*4
- Single Audit Act (A-133) Engagements
- All Other

**ERISA**
SEC
Other entities, subject to SEC independence rules (not included above)
- Other

**SSARS—**
Reviews
- Compilations With Disclosures
- Compilations Omit Disclosures

**SSAE—**
Financial Forecast and Projection—Examination
- Financial Forecast and Projection—Other
- Agreed-Upon Procedures
- Other
- Percentage of A&A Practice Reviewed

Comments:

C. Did the firm perform any audits of federally insured depository institutions with more than $500 million in total assets subject to Section 36 of the Federal Deposit Insurance Act? Yes ___ No ___. If "yes," how many were included in the scope of the peer review? _______

D. Were you requested not to review any engagements? Yes ___ No ___. If "yes," describe the reason for the request, whether you were satisfied as to the reason, and how this affected the scope of the review. _______

---

3 The number of engagements should include each monthly, quarterly and annual report issued.
4 Includes only audits of entities subject to *Government Auditing Standards* ("Yellow Book"), including audits subject to OMB Circular A-128.
5 For engagements on which not all of the key areas were reviewed, include only the engagement hours that relate to the portion of the engagement that was reviewed and note the fact in the comment section.
IV. Overall Findings and Conclusions:
   A. Do you conclude that the firm’s policies and procedures were appropriately designed and that the firm complied with its policies and procedures with respect to the following elements of quality control? If no, indicate the deficiency that applied and the reporting implication.

<table>
<thead>
<tr>
<th>Conclusion</th>
<th>Deficiencies</th>
<th>Reporting Implications</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>No</td>
<td>A Design Deficiency</td>
</tr>
</tbody>
</table>

   1. Independence, Integrity, and Objectivity
   2. Personnel Management
   3. Acceptance and Continuance of Clients and Engagements
   4. Engagement Performance
   5. Monitoring

B. Attach a copy of the report issued.

C. Was a letter of comments issued? Yes____ No____. If “yes,” attach a copy. If no, comment briefly on the reviewer’s findings in relation to that decision.

---

* Only a “No” answer requires responses regarding “Deficiencies” and “Reporting Implications”.
Note: Your responses to IVA. should be based on the following: reading the information obtained from the questionnaire filled out by the reviewed firm and other relevant written materials, discussions with firm personnel, the results of specific procedures performed and engagements reviewed, and also based on giving due consideration to factors such as: size of firm, the degree of operating autonomy allowed to its personnel and its practice offices, the nature of its practice, its organization (including non-CPA owned entities with which the reviewed firm is closely aligned through common employment, leasing of employees, equipment, facilities, etc., or other similar arrangements, if any), and appropriate cost-benefit considerations.

7 “Deficiencies” and “Reporting Implications” should be supported by Matters for Further Consideration Forms that are summarized on the Summary of Matters for Further Consideration and Conclusion form.
D. If a report was issued that was unmodified without a letter or comments, unmodified with a letter of comments, modified, or adverse, did you consider issuing a different type of report other than the report that was issued but did not result in the issuance of a different type of report? (For example, an unmodified report with a letter of comments to an unmodified report without a letter of comments, unmodified to modified, modified to unmodified, modified to adverse, adverse to modified.) Yes___ No___. If “yes.” Describe such matters fully, including the basis for the conclusion.

E. Was the firm previously reviewed? Yes___ No___. If “yes,” were any matters noted on the previous review repeated in the letter of comments on the current review? Yes___ No___. If “yes,” please describe what the firm has done or plans to do to prevent a recurrence of the matter(s) and whether you concur with the actions taken or planned.
F. Were the findings from the firm's monitoring procedures compared to the findings on the peer review? Yes____ No____. If "yes," please list any significant differences and the reasons therefor. If "no," why not?

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

G. Does the reviewed firm have more than one office? Yes____ No____. If "yes," did the review team conclude that the degree of noncompliance at one or more offices was of such significance that a condition was created in which there was more than a remote possibility that the office(s) would not conform with professional standards on accounting and auditing engagements? Yes____ No____. If "yes," briefly describe the nature and extent of the deficiencies noted in the office(s) or attach a copy of the summary review memorandum prepared on that office.

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________
H. Describe the nature and extent of each matter discussed at the exit conference and/or communicated to senior management of the reviewed firm that was not deemed of sufficient significance to include in a letter of comments.
I. Did the review disclose any situations that led the reviewers to conclude that the financial statements did not conform in all material respects with generally accepted accounting principles (or, if applicable, a comprehensive basis of accounting other than GAAP) and the auditor’s/accountant’s report was not appropriately modified? (AU 561 and ET 203) Yes___ No___. If "yes":

1. Describe such situations fully.  
________________________________________________________________________________________________________________________________________

2. Indicate whether the firm considered the matter.  
________________________________________________________________________________________________________________________________________

3. Describe the actions the firm has taken or plans to take.  
________________________________________________________________________________________________________________________________________

4. If the firm has taken the necessary actions, indicate whether you have reviewed documentation of such actions (for example, reissued report and financial statements or letter recalling previously issued reports) and whether the actions are appropriate.  
________________________________________________________________________________________________________________________________________

5. If the firm has not taken the necessary actions, indicate whether you concur with its planned actions.  
________________________________________________________________________________________________________________________________________

---

* These situations should be reflected on the Engagement Statistics Data Sheet in Attachment 1. Also, when there is a disagreement with the reviewed firm about these situations, the reviewers should consult with the administering entity or its designee.
J. Did the review disclose any situations that led the reviewers to conclude that the firm did not perform an engagement in all material respects in accordance with generally accepted auditing standards and other applicable standards including, where applicable, governmental auditing standards (AU 390 and ET 202)? Yes___ No____ If "yes":

1. Describe such situations fully. ____________________________________________

2. Indicate whether the firm considered the matter. ________________________________

3. Describe the actions the firm has taken or plans to take. ________________________

4. If the firm has performed the additional procedures necessary to support the previously issued opinion, indicate whether you have reviewed the documentation of the additional procedures and whether the conclusions reached are appropriate. ________________________________

5. If the firm has not performed the necessary procedures, indicate whether you concur with the planned actions. ________________________________

---

9 See footnote 8.
K. Did the review disclose any situations that led the reviewers to conclude that the firm did not perform an engagement in all material respects in accordance with standards for accounting and review services (ET 202)? Yes___ No___. 10 If “yes”:

1. Describe such situations fully. __________________________________________
   __________________________________________
   __________________________________________
   __________________________________________
   __________________________________________

2. Indicate whether the firm considered the matter. __________________________________________
   __________________________________________
   __________________________________________
   __________________________________________
   __________________________________________

3. Describe the actions the firm has taken or plans to take. __________________________________________
   __________________________________________
   __________________________________________
   __________________________________________
   __________________________________________

4. If the firm has completed the necessary actions, indicate whether you have reviewed documentation of such actions. __________________________________________
   __________________________________________
   __________________________________________
   __________________________________________
   __________________________________________

5. If the firm has not yet taken the necessary actions, indicate whether you concur with the planned actions. __________________________________________
   __________________________________________
   __________________________________________
   __________________________________________
   __________________________________________

10 See footnote 8.
L. Did the review disclose any situations that led the reviewers to conclude that the firm did not perform an engagement in all material respects in accordance with the standards for attestation engagements or any other standards not encompassed in items I, J, and K of this section? Yes___ No____. If “yes”:

1. Describe such situations fully. ____________________________________________________________

2. Indicate whether the firm considered the matter. ____________________________________________

3. Describe the actions the firm has taken or plans to take. ______________________________________

4. If the firm has completed the necessary actions, indicate whether you have reviewed documentation of such actions. _________________________________________________________________

5. If the firm has not taken the necessary actions, indicate whether you concur with its planned actions. ____________________________________________________________________________________

[11 See footnote 8.]
M. Did the review disclose any situations that led the reviewers to conclude that the documentation on any engagement does not support the standards under which the engagement was performed? Yes___ No___. If "yes":

1. Describe such situations fully. ___________________________________________________________

_____________________________________________________________________________________

_____________________________________________________________________________________

2. Describe the procedures the firm has represented that it performed in the situation(s). ___

_____________________________________________________________________________________

_____________________________________________________________________________________

3. Indicate whether you believe the procedures described by the firm are sufficient in the circumstances. __________________________________________________________

_____________________________________________________________________________________

_____________________________________________________________________________________

N. If reliance is being placed on the firm's inspection program for the current year, did the reviewed firm's inspection program identify any engagements on which the firm must consider taking action pursuant to the standards cited in Items I, J, K, and L of this section? Yes___ No___. If "yes," describe such instances fully, indicate whether the firm agrees with you, describe the actions the firm has taken or plans to take, and indicate whether you concur with that action.12

_____________________________________________________________________________________

_____________________________________________________________________________________

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_____________________________________________________________________________________


12 See footnote 8.
O. Based on the deficiencies noted on the peer review, do you believe corrective or monitoring action should be required of the firm by the report acceptance body? Yes__ No___. If “yes,” please describe.

P. The following is the actual or best estimate of the number of hours expended to complete the peer review.

**Actual Review Hours**

<table>
<thead>
<tr>
<th>Team Captain</th>
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<tbody>
<tr>
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</table>

<table>
<thead>
<tr>
<th>Team Member(s)</th>
<th></th>
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<tbody>
<tr>
<td>A.</td>
<td></td>
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<tr>
<td>B.</td>
<td></td>
</tr>
<tr>
<td>C.</td>
<td></td>
</tr>
<tr>
<td>D.</td>
<td></td>
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</table>

<table>
<thead>
<tr>
<th>Total Review Hours</th>
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</tbody>
</table>

Team Captain _______________________

Date _____________________________
## ATTACHMENT 1

### SYSTEM REVIEW ENGAGEMENT STATISTICS DATA SHEET

#### I. Engagement Statistics

<table>
<thead>
<tr>
<th>Type of Engagement</th>
<th>Total No. Reviewed</th>
<th>Total No. Substandard</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>SAS—</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Audits subject to</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government Auditing Standards:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Single Audit Act (A-133)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>All Other</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ERISA</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SEC</td>
<td></td>
<td></td>
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<tr>
<td>Other entities, subject to</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SEC independence rules</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(not included above)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>SSARS—</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reviews</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Compilations With</td>
<td></td>
<td></td>
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<tr>
<td>Disclosures</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Compilations Omit</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Disclosures</td>
<td></td>
<td></td>
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<tr>
<td><strong>SSAE—</strong></td>
<td></td>
<td></td>
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<tr>
<td>Financial Forecast and</td>
<td></td>
<td></td>
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<tr>
<td>Projection—Examination</td>
<td></td>
<td></td>
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<tr>
<td>Financial Forecast and</td>
<td></td>
<td></td>
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<tr>
<td>Projection—Other</td>
<td></td>
<td></td>
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<tr>
<td>Agreed-Upon Procedures</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
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<td></td>
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<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### REASON CODES

Substandard Engagement Reason Codes
- GAA Non-GAAS and Non-GAAP
- GAP Non-GAAP
- GAS Non-GAAP
- SAR Non-SSARS
- ATT Non-SSAE

#### ACTION CODES

Substandard Engagement Action Codes
1. Report and/or financial statement recalled, revised and reissued
2. Financial statements corrected or to be corrected in subsequent year (issuance of financial statement on subsequent period is imminent)
3. Omitted auditing procedure(s) performed or to be performed in subsequent engagement (performance of subsequent engagement is imminent)
4. Cause of independence impairment eliminated
5. Unable to apply omitted procedures
6. Notified parties that no reliance should be placed on the report issued
7. Engagement letter to be prepared on subsequent engagements where a compilation report is not issued.
8. Engagement letter on subsequent engagements to include the required descriptions or statements, or additional matters, when applicable, where a compilation report is not issued.

#### II. Reasons for Substandard Engagements

<table>
<thead>
<tr>
<th>Type of Engagement Reviewed</th>
<th>Reason Code</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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</tbody>
</table>

#### III. Actions To Be Taken on Substandard Engagements

<table>
<thead>
<tr>
<th>Type of Engagement Reviewed</th>
<th>Action Code</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
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</tbody>
</table>

#### IV. Engagements Excluded from Review

<table>
<thead>
<tr>
<th>Type of Engagement</th>
<th>Reason Code</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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</tbody>
</table>

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The information reflected on this sheet should agree with the information reflected in Items III.B, IV.I, IV.J, IV.K, and IV.L of the Summary Review Memorandum.

---

*The information reflected on this sheet should agree with the information reflected in Items III.B, IV.I, IV.J, IV.K, and IV.L of the Summary Review Memorandum.*
ATTACHMENT 2
Cost Information
(Required only for committee-appointed review teams)

A. Budget to Actual Comparison

<table>
<thead>
<tr>
<th></th>
<th>Budgeted Hours</th>
<th>Actual Hours</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Team Captain</td>
<td>Team Member(s)</td>
</tr>
<tr>
<td>Planning</td>
<td></td>
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<tr>
<td>Engagement Review</td>
<td></td>
<td></td>
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<tr>
<td>System of Quality Control Review</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exit Conference</td>
<td></td>
<td></td>
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<tr>
<td>Report</td>
<td></td>
<td></td>
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<tr>
<td>Letter of Comments</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other (describe if significant)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Hours</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Range per Engagement Letter</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rate/Hour</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Amount</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

B. Was the actual review time discussed with the firm? Yes___ No___

C. Does actual time exceed the upper end of the estimated range? Yes___ No___. If “yes,” describe the reasons for the overrun, indicate that the matter has been discussed with the reviewed firm, and indicate whether the overrun is acceptable to the firm.

Team Captain
Date

[The next page is 4813.]
PRP Section 4800
Team Captain Checklist—System Reviews

Contents

Section Paragraph
4800 Team Captain Checklist—System Reviews
  Instructions .................................................. .01-.04
  Team Captain Checklist—System Reviews .................. .05
Appendixes
  A. System Review Completion Form ......................... .06
  B. Index for Non-Engagement Related Working Papers ....... .07
Instructions

.01 This section of the manual contains a Team Captain Checklist for system reviews. It provides a basic overview of the way in which all system reviews—regardless of firm size—are to be conducted.

.02 System reviews are administered by state CPA societies participating in the program. Hereafter, those entities are referred to collectively as the administering entity.

.03 Questions regarding the use of this checklist or any other materials or about the review in general should be directed to the staff of the administering entity or to such other individuals the administering entity may identify for that purpose.

.04 This checklist must be completed on all system reviews of firms in the AICPA Peer Review Program and submitted to the administering entity, whether those reviews are conducted by a review team formed by a firm engaged by the firm under review, by a state CPA society participating in the program (a committee-appointed review team), or by an authorized association of CPA firms.
I. Prior to the Review

1. Obtain from the entity administering the review the background and scheduling information on the firm, and review and compare such information with that furnished by the firm. (See Step 2.)

2. Review the background information furnished by the firm and ascertain whether the firm is enrolled in the AICPA Peer Review Program. (If the information provided to the administering entity by the firm differs significantly from the information provided by the firm to you, please reconcile and notify the administering entity, if necessary.)

3. If the firm has had a significant acquisition of another practice, or divestiture of a portion of its practice, including the sale of any portion of the firm's non-attest practice to a non-CPA owned entity during or subsequent to the peer review year, consult with the administering entity to determine the structure of the firm and the scope of the review.

4. Contact the firm to be reviewed sufficiently in advance of the review (ordinarily, at least three weeks before the review) and—
   a. Confirm the timing of the review and the expected date of the exit conference.
   b. Confirm that the administering entity has been notified about the arrangements for the review and that the firm has received acknowledgement of that information.
   c. Confirm in all reviews performed by a committee-appointed review team that the firm has returned a signed copy of the engagement letter to the administering entity.
   d. Inquire whether the firm has had a previous peer review and, if so, request a copy of the report, letter of comments, letter of response, and the letter accepting those documents.
   e. Select, in conjunction with the reviewed firm, a review period that covers a current period of one year. The review year ordinarily should end about three to four months before the review commences. It does not have to be the same as the firm's fiscal year. The firm is expected to maintain the same peer review year-end once established. However, circumstances may arise that necessitate changing the peer review year-end. In such situations, the year-end may be changed with the prior approval of the administering entity.
   f. Request the firm to provide—
      (i) A copy of its completed Quality Control Policies and Procedures Questionnaire.
      (ii) An engagement list (see illustration in "Instructions to Firms Having a System Peer Review"). The list should contain all engagements (by name or by blind code number) with periods ending during the year under review and covered by the definition of an accounting and auditing practice for peer review purposes (PRP section 3100.04). The list should identify those
engagements, if any, that are subject to SEC independence rules, but are not SEC registrants as defined by the SEC Practice Section (e.g., brokers and dealers, commodity futures trading dealers).

(iii) A list of the firm’s professional personnel, showing name, position, and years of experience (1) with the firm and (2) in total.

(iv) A copy of the client’s 8-K filing notifying the SEC of the change in auditors if the firm has been the auditor for an SEC registrant and has resigned, declined to stand for re-election or been dismissed since the date of the firm’s last peer review or during the review year if the firm has not previously had a review to verify that the client/auditor relationship has terminated.

(v) A copy of the firm’s documentation maintained since its last peer review to demonstrate compliance with the monitoring element of quality control (AICPA, Professional Standards, vol. 2, QC sec. 20.25).

g. Review the list of engagements and make sufficient inquiries to determine that all engagements covered in the Standards have been identified by the firm. Consult with the administering entity if there are reasons to believe the list is not complete.

h. Inquire whether the firm has or had an SEC client. If yes, consult with the administering entity.

i. Confirm that the firm has designated a partner or senior staff member to act as a liaison with the review team.

j. Confirm that persons in the firm responsible for the system of quality control will be available for interviews during the review, especially at the beginning of the review. (In smaller firms, the managing partner might be the primary source of information about the firm’s quality controls.)

k. Inquire whether—

(i) The partners of the firm and the firm itself have licenses to practice public accounting in the state(s) in which the firm practices as required by the applicable state board(s) of accountancy. If any exception was noted, add an addendum to the Team Captain’s Checklist explaining the effect on the firm’s accounting and auditing practice and on the performance of the review.

(ii) The firm or any of its personnel is being or has been investigated during the last three years by any state board of accountancy or AICPA or state society professional ethics committee, or any other government agency in connection with the quality of the firm’s accounting and auditing practice or the conduct of any of the firm’s personnel with respect to a specific accounting or auditing engagement, and, if available, the results thereof. If yes, but the investigation is open or being deferred due to pending litigation or concurrent investigation by another authoritative body, inquire as to the nature of the investigation and then consider including in the scope of the peer review at least one accounting or auditing engagement of the individual responsible for the accounting and auditing engagement that is the subject of the investigation (e.g., audit partner).
(iii) There are any restrictions or limitations on the firm’s or its personnel’s ability to practice accounting and auditing that were effective during the period since the firm’s last peer review (or since enrolling in one of the AICPA practice monitoring programs, whichever is later) and that were imposed by or agreed to with other regulatory, monitoring or enforcement bodies (e.g., SEC, GAO, or DOL). If yes, include in the scope of the peer review an evaluation of the adequacy of the firm’s actions to comply with such restrictions or limitations.

(iv) There are any limits to access to records and systems of control (i.e., independence system), including but not limited to employee files of leased and per diem employees and client acceptance documentation. If such limitations do exist, consult with the administering entity.

(v) The partners of the firm have noted an impairment of independence due to providing non-attest services to their attest clients as described in the AICPA Code of Professional Conduct. (ET section 101.07 and .15, and related ethics rulings in ET section 191).

If any exception was noted on i, ii, iii, and v above, add an addendum to the Summary Review Memorandum explaining the effect on the firm’s accounting and auditing practice and on the performance of the review.

(vi) Any requirements of relevant state boards of accountancy must be met for the review to be accepted by such board(s) as meeting its requirements.

5. Obtain a sufficient understanding of the design of the firm’s system of quality control to plan the review, including any portion of the firm’s system of quality control that reside at or operate in conjunction with the system of control of one or more non-CPA owned entities with which the firm is closely aligned through common employment, leasing of employees, equipment, facilities, etc., or other similar arrangements. (This can be obtained by reading the reviewed firm’s responses to the Quality Control Policies and Procedures Questionnaire.)

6. Obtain a sufficient understanding of the impact of any regulatory requirements imposed on the firm due to its being closely aligned with a non-CPA owned entity.

7. Assess inherent risk and control risk at both the office and engagement level. Describe your assessment of the risks in the related questions of the SRM.

8. Based on the risk assessment, make a preliminary selection of the practice offices to be visited and the engagements to be reviewed. Engagements selected for review should be those with periods ending during the year under review. If the current year's engagement is not completed and a comparable engagement within the peer review year is not available, the prior year's engagement should be reviewed. If the subsequent year's engagement has been completed, then consideration of whether the more recently completed engagement should be reviewed instead should be based on the assessment of peer review risk. To minimize any assertion that advance selections may afford undue opportunities for "clean-up" of the working papers, it is preferable that the selection of some engagements not be made known to the firm until the review team arrives.
a. If the firm performs the following types of engagements, then one or more of each type that the firm performs is required to be included in the sample of engagements selected for review—
   - Audits conducted pursuant to the Government Auditing Standards issued by the U.S. General Accounting Office (the “Yellow Book”).
   - Audits conducted pursuant to ERISA.
   - Engagements subject to Section 36 of the Federal Deposit Insurance Act if the review is intended to satisfy the requirements of that Act.

9. Request the firm to complete the profile sheets in the engagement review checklists and to assemble the working papers and reports before the review begins.

10. If the reviewed firm does not permit the working papers for certain engagements to be reviewed, evaluate the reasonableness of the explanation and consider what other actions may be appropriate in the circumstances (see the Standards, on “Scope of the Review”). When the explanation is that the client has refused to allow its engagement to be reviewed, inspect any written communications between the firm and the client and evaluate whether the firm made a good-faith effort to obtain the client’s concurrence to the review.

II. At the Beginning of the Review
1. Meet with other reviewers to—
   a. Orient them to firm policies and procedures, especially the information obtained as a result of performance of the procedures in Steps I.5 and I.6 above.
   b. Instruct them in the manner in which working papers, questionnaires, checklists, and MFC forms are to be prepared to facilitate supervision and review.
   c. Explain the “key audit area” approach to engagement review, noting that the team captain should concur in advance with respect to such decisions.
   d. Assign responsibilities.

2. If the firm was previously reviewed, consider whether matters, if any, discussed in the firm’s prior report, letter of comments, and response thereto require additional emphasis in the current review, and discuss these matters with the other members of the review team.

III. During the Review
1. Gain an understanding of the type of firm structure in all relevant matters, such as: the nature of the organization, arrangements with non-CPA owned entities, and utilization of leased and per diem staff, and the impact of such structure on the firm’s system of quality control.

2. Gain, through discussion with the managing partner and/or other key personnel an understanding of the firm’s professional and management environment and the business environment in which the firm and its clients practice. (The professional environment established by a firm and the business environment in which it and its clients operate can have a significant impact on the effectiveness of a firm’s system of quality control. A quality firm has as its overriding goal the provision of audit, accounting,
tax and advisory services to clients in the best professional manner; the reviewer should know whether this philosophy is espoused by the firm and whether it is communicated to and understood by all personnel. Also, the business environment in which the firm and its clients operate can place pressures on professionalism, pressures that only a strong system supported by leadership from the top can ordinarily meet).

3. Ascertain that the scope of the peer review includes a cross section of auditing and accounting engagements based upon the risk assessment. Consider whether modifications are needed in the selection of offices or engagements for review.

4. Make or approve any modifications to programs and checklists issued by the AICPA for the conduct of the review, noting that paragraph 31 of the Standards provide: "Failure to complete all relevant programs and checklists in a professional manner may create the presumption that the review has not been performed in conformity with these standards. Such a review cannot be accepted as meeting the requirements of the peer review program."

5. Prepare or review the applicable checklist, Guidelines for Review of Quality Control Policies and Procedures. [There is one checklist for sole practitioners with no professional staff (PRP section 4400) and one for all firms with two or more professional staff (PRP section 4500).]

6. Prepare or review, if applicable, the checklist, Guidelines for Review of Quality Control Policies and Procedures For Non-CPA Owned Entities Closely Aligned With a CPA Firm (PRP section 5200).

7. Prepare a summary or otherwise review "no" answers to questions on the engagement review checklists. Note matters or indications of possible common underlying systemic causes of these engagement findings and prepare an MFC form.

8. Review the firm's response to MFC forms arising from engagement reviews or from preparation of Guidelines for Review of Quality Control Policies and Procedures. The firm's response should—
   a. Clearly indicate its agreement with the matters described or an explanation of its reasons for disagreement.
   b. Include, if possible, its view or understanding of the underlying cause of the matter described and its significance.

9. If the firm is a multi-office firm and it facilitates summarization of the results of the review of the firm as a whole, prepare or review memoranda summarizing the results of the reviews of each office visited.

10. Review the MFC forms and, if necessary, prepare a summary to facilitate this review. A sample summary format is available at PRP section 4900.06. Evaluate the effect of the matters discussed on MFC forms on the firm's system of quality control and its degree of compliance with that system.

11. Consult with the administering entity or its designee in situations previously identified by the entity and whenever any of the following situations are encountered:
   a. When the firm has sold a portion of its non-attest practice to a non-CPA owned entity and entered into a service arrangement with that non-CPA owned entity to provide employees, office space, equipment, etc. for which the firm remits a percentage of its revenues or profits.
b. The review team feels it may not have the expertise required under the Standards to accomplish the required engagement reviews satisfactorily.

c. The review team is considering whether to terminate the review because, for example, of a lack of cooperation.

d. The review team and the reviewed firm have a disagreement on a significant matter, including the type of report to be issued, the letter of comment to be issued, matters that may require the application of the guidance in AICPA Professional Standards, AU section 561 and AU section 390, and similar matters with respect to engagements to compile or review historical financial statements or to examine prospective financial statements.

e. There is any uncertainty about the report to be issued or the matters to be included in the letter of comments. (See IV. 2).

12. Consider the need to consult with the administering entity or its designee whenever the following situations are encountered:

a. Difficulties in complying with the Standards, especially in selecting engagements or offices for review.

b. Circumstances that may call for issuance of other than an unmodified report.

13. Develop a list of points to be discussed at the firm-wide exit conference, distinguishing between—

a. Matters that require a modified or adverse report.

b. Other matters that will be included in the letter of comments.

c. Other comments and suggestions.

14. Notify the administering entity promptly if there is a change in the date of the exit conference.

IV. At Completion of the Review

1. Prepare the report and letter of comments, if applicable, using guidance in the Standards and/or the Manual, PRP sections 3300 and 3400, respectively:

a. The team captain should be familiar with PRP sections 3300 (reports) and 3400 (letters of comment), especially PRP section 3400.24-.95.

b. Submit the originals of such documents to the reviewed firm within thirty days of the exit conference date or by the firm's peer review due date, whichever is earlier.

c. Submit a copy of such documents to the administering entity within thirty days of the exit conference date or by the firm's peer review due date, whichever is earlier, along with a copy of the "System Review Completion Form." (See Appendix A).

2. Communicate the review team's findings to senior members of the reviewed firm at an exit conference. The reviewed firm is entitled to be informed at the exit conference about any matters that may affect the report and about all significant findings and recommendations that will be included in the letter of comments. The team captain should be physically
present at the exit conference unless the peer review is performed under Interpretation No. 1 to the Standards for Performing and Reporting on Peer Reviews. Except in rare circumstances which should be explained to the reviewed firm, the exit conference should be postponed if there is any uncertainty about the report to be issued or the matters to be included in the letter of comments. Also, at that time discuss the following with the reviewed firm—

a. The letter of response should be addressed to the peer review committee of the administering entity and should describe the remedial or corrective actions taken or planned to prevent a recurrence of each matter described in the letter of comments. If the reviewed firm disagrees with one or more of the findings or recommendations in the letter of comments, its response should describe the reasons for such disagreement.

b. The reviewed firm should submit a draft of its letter of response, if applicable, to the team captain for review and comment prior to submitting the response to the administering entity.

c. Inform the firm to expect to receive a follow-up action from the report acceptance body when a modified or adverse report is likely to be issued. You should also inform the firm, that in certain situations, the report acceptance body may require a follow-up action even though an unmodified report may be issued.

d. Inform the firm of the AICPA Peer Review Board's resolution that a firm's failure to cooperate with the state CPA society administering its review would include failing to receive an unmodified peer review report 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 comments with significant deficiencies are considered equivalent to failing to receive an unmodified report for the purposes of this resolution.)

e. The reviewed firm should not publicize the results of the review or distribute copies of the report to its personnel, clients, or others until it has been advised that the report has been accepted by the administering entity.

f. The actual time incurred on the review to date and additional time anticipated to complete all aspects of the review.

3. Complete the Summary Review Memorandum. (See PRP section 4700.)

4. Has the team captain reviewed the firm's letter of response?

   _ ___ Not applicable, a letter of comments was not issued.

   _ ___ Yes, and the Letter of Response adequately addresses all Letter of Comments findings and recommendations.

   _ ___ No, Include an explanation with your working papers submitted to the administering entity.
5. For reviews conducted by committee-appointed review teams—
   a. Send all working papers to the administering entity in two separate mailings—
      (i) Working papers for reviews of individual engagements.
      (ii) All other working papers and correspondence. (See appendix B.)
   b. Approve bills for time and expenses of review team members and submit them along with your own bill to the administering entity. Make sure the bills include the federal employer identification number for Form 1099 purposes, when applicable.

6. For all other reviews, send a copy of the firm-wide Summary Review Memorandum, the Team Captain Checklist and the MFC forms to the administering entity. Note that other working papers on these reviews are subject to oversight procedures, which may be applied at a later date.
Appendix A

SYSTEM REVIEW COMPLETION FORM

Date: ____________________________
To: ______________________________
From: ____________________________

(Name of the Review Team Captain)

Re: Review of __________________________
    Firm Number ______________________ Review Number ______________________

1. On what date was the firm-wide exit conference held? _______________
2. When was the report and letter of comments, if any, delivered to the reviewed firm? _______________
3. What was the general nature of the report?* _______________
4. If the report was modified or adverse, what were the reasons?* _______________
5. Where will the working papers be shipped? _________________________________

_____________________________________________________________________________

6. When will the working papers be shipped to the entity noted in (5) above? _______________
7. Was this peer review performed at a location other than the firm’s office under Interpretation No. 1 to the Standards for Performing and Reporting on Peer Reviews? _______________

        **********

Team Captain Signature ____________________________
Date: ____________________________

* Please use the report codes on page 4824.
REPORT CODES

**GENERAL NATURE OF THE REPORT**

<table>
<thead>
<tr>
<th>Code</th>
<th>Description</th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>Unmodified—No Letter of Comments</td>
</tr>
<tr>
<td>2</td>
<td>Unmodified—With Letter of Comments</td>
</tr>
<tr>
<td>3</td>
<td>Modified—System of Quality Control (only)</td>
</tr>
<tr>
<td>5</td>
<td>Modified—Scope Limitation (only)</td>
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<td>7</td>
<td>Adverse</td>
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**REASONS FOR SYSTEM OF QUALITY CONTROL MODIFICATIONS**

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<td>352</td>
<td>Engagement Performance</td>
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<tr>
<td>353</td>
<td>Personnel Management</td>
</tr>
<tr>
<td>354</td>
<td>Acceptance and Continuance of Clients and Engagements</td>
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<td>355</td>
<td>Monitoring</td>
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Appendix B

Index for Non-Engagement Related Working Papers

<table>
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<tr>
<td>B</td>
<td>Letter of Comments</td>
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<td>D</td>
<td>Team Captain Checklist (PRP Section 4800)</td>
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<td>E</td>
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<tr>
<td>F</td>
<td>Engagement Letter</td>
<td>□</td>
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<td>Firm Background Information</td>
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<td>H</td>
<td>Firm Quality Control Document</td>
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PLANNING

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<td>I</td>
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PERFORMANCE

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<td>Matter for Further Consideration Forms</td>
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REPORTING

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<td>List of Points for the Exit Conference</td>
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<td>Exit Conference Memorandum</td>
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<td>Other Reporting Materials</td>
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ADMINISTRATION

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<td>Time Summaries</td>
</tr>
<tr>
<td>V</td>
<td>Evaluation of Team Members</td>
</tr>
<tr>
<td>W</td>
<td>Other Miscellaneous Correspondence</td>
</tr>
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</table>

[The next page is 4901.]
PRP Section 4900

Instructions for Use of Matter for Further Consideration Forms—System Reviews

.01 A reviewer should prepare a Matter for Further Consideration form (MFC) to clearly and concisely document all significant matters that require additional information or explanation of the facts from the reviewed firm.

.02 If an MFC form is prepared during the course of the review and subsequent information indicated that the form should not have been prepared, it may be discarded. (For example, an MFC may be discarded if it stated that no letter was received from legal counsel, but an acceptable letter has been received and misfiled and was subsequently found. Similarly, an MFC may be discarded if it stated the documentation in a particular area was inadequate, but the reviewer reconsidered and decided the documentation was adequate.) On the other hand, if an MFC is prepared for a matter which is valid, the MFC should not be discarded even though it is subsequently decided that the matter need not be covered in the letter of comments.

.03 The matters discussed on an MFC form should be classified as follows—

Design—The reviewer believes that the firm’s quality control policies and procedures, even if fully complied with, are not likely to provide the firm with reasonable assurance of conforming with professional standards.

Performance—The reviewer believes that the reviewed firm failed to adhere to professional standards, including GAAP, GAAS, GAGAS, SSARS, and SSAE.

Compliance—System of Quality Control—The reviewer believes that the reviewed firm did not comply with one of its prescribed policies or procedures even though it did conform with professional standards.

Documentation—The reviewer believes that the work performed in a particular area was not documented but, through inquiry or other means, the reviewer is satisfied that the work was performed.

.04 MFCs relating to both functional and engagement review areas should be sorted by nature of comment. 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. Matter for Further Consideration forms should be summarized to facilitate these considerations. The format of summarization is left to the discretion of the reviewer; however, a summary format is included on page 4903. Reviewers may use this summary format or develop their own.
MATTER FOR FURTHER CONSIDERATION

FIRM ____________________________ OFFICE CODE NO. ______________________
PROFESSIONAL STANDARDS REFERENCE(S) __________________ MFC NO. __________
REVIEWER’S DESCRIPTION OF THE MATTER

REVIEWED FIRM AGREES WITH THE DESCRIPTION OF THE MATTER? YES ___ NO ___
REVIEWED FIRM’S COMMENTS ON CIRCUMSTANCES, SIGNIFICANCE OF MATTER, ETC.

TEAM CAPTAIN’S/REVIEWER’S ADDITIONAL COMMENTS

INCLUDED IN LETTER OF COMMENTS? YES ___ NO ___
If “No,” Explain:

Type of Matter:
_ Design _ Performance _ Compliance _ Documentation

<table>
<thead>
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<th>Signatures</th>
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<td>Engagement Partner</td>
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<td>Reviewer</td>
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<td>Team Captain</td>
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Program Questionnaire

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<th>Program Step</th>
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<tbody>
<tr>
<td>No.</td>
<td>Checklist Page</td>
<td>Question</td>
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</table>

PRP §4900.05
### SUMMARY OF MATTER FOR FURTHER CONSIDERATION FORMS AND CONCLUSIONS ON THE REVIEW

(Name of Reviewed Firm)

<table>
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<tr>
<th>MFC Number</th>
<th>Reference¹</th>
<th>Brief Description of Matter</th>
<th>Type of Matter²</th>
<th>Quality Control Element</th>
<th>Disposition³</th>
<th>Briefly Explain Reasons</th>
</tr>
</thead>
</table>

¹ The reviewer should indicate the program or engagement checklist step that led to the MFC.
² The reviewer should classify each matter discussed on an MFC form as a deficiency relating to either: (a) design, (b) performance, (c) compliance, or (d) documentation.
³ The reviewer should indicate how the item affects the results of the review: (a) adverse report, (b) modified report, (c) LOC finding only, or (d) exit conference only.

[The next page is 5001.]
PRP Section 5000
System Reviews of Firms Closely Aligned With Non-CPA Owned Entities

In performing peer reviews, review teams must complete all relevant programs and checklists issued by the AICPA Peer Review Board in a professional manner. Failure to do so may create a presumption that the review has not been performed in conformity with the standards governing the program.

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Section
5100 Quality Control Policies and Procedures Questionnaire for Non-CPA Owned Entities Closely Aligned With a CPA Firm
5200 Guidelines for Review of Quality Control Policies and Procedures for Non-CPA Owned Entities Closely Aligned With a CPA Firm
5300 Staff Interview Questionnaire for Non-CPA Owned Entities Closely Aligned With a CPA Firm

[The next page is 5101.]
PRP Section 5100

Quality Control Policies and Procedures Questionnaire for Non-CPA Owned Entities Closely Aligned With a CPA Firm

.01 This section of the manual contains a questionnaire that a non-CPA owned entity must complete prior to the commencement of the review of a CPA firm when certain portions of the CPA firm’s system of quality control reside at or operate in conjunction with the system of control of the non-CPA owned entity with which the CPA firm is closely aligned through common employment, leasing of employees, equipment, facilities, etc., or other similar arrangements. In this situation, the CPA firm sells all or a portion of its non-attest practice to a non-CPA owned entity. However, the majority of the financial interests in the CPA firm’s attest practice is owned by CPAs. (See AICPA Code of Professional Conduct Interpretation 101-14, ET section 101.16, for further information regarding the effect of alternative practice structures on CPA firms.)

.02 The CPA firm’s system of quality control should encompass all five elements of quality control: (1) independence, integrity and objectivity, (2) personnel management, (3) acceptance and continuance of clients, (4) engagement performance, and (5) monitoring. However, certain portions of the CPA firm’s system of quality control can be delegated to the non-CPA owned entity while others cannot be delegated. This questionnaire addresses only those portions of the non-CPA owned entity’s system of control that support the CPA firm’s system of quality control. Accordingly, the questions relate to the elements of quality control for which the non-CPA owned entity has established policies and procedures. This would generally include the following elements of quality control: (1) independence, integrity, and objectivity, (2) personnel management, and (3) monitoring of the quality control elements noted in (1) and (2). The questionnaire should be completed by a representative of the non-CPA owned entity who understands how the non-CPA owned entity’s system supports the CPA firm’s system of quality control. Completion of the questionnaire assists a non-CPA owned entity in accumulating and organizing the information to enable the peer review team to obtain an understanding of controls needed to plan a peer review of the CPA firm’s system of quality control. PRP section 4300 should be completed by the CPA firm being reviewed in assessing those elements of quality control that reside within the CPA firm’s system of quality control. Accordingly, PRP section 4300 should be completed for those certain elements.

.03 Respond directly to the questions with “Yes,” “No,” or “N/A” answers and briefly describe, where appropriate, the policies and procedures the non-CPA owned entity has in effect that relate to the questions asked. Where appropriate, the representative from the non-CPA owned entity should make reference to any documents prepared and maintained by either the non-CPA owned entity or by the CPA firm being reviewed, that describe those policies and procedures in more detail. Examples of such documents might be personnel manuals, audit and accounting manuals, a quality control document or manual, and forms and checklists. Lengthy and elaborate answers are not expected.

Non-CPA Owned Entity

Prepared By

Date

AICPA Peer Review Program Manual
AICPA Peer Review Program
QUALITY CONTROL POLICIES AND PROCEDURES QUESTIONNAIRE FOR NON-CPA OWNED ENTITIES CLOSELY ALIGNED WITH A CPA FIRM

A. Independence, Integrity, and Objectivity

The non-CPA owned entity, other associated entities and their personnel will adhere to applicable independence, integrity, and objectivity requirements to the extent required. These requirements include: regulations, interpretations, and rulings of the AICPA, state CPA societies, state boards of accountancy, state statute, the Independence Standards Board (ISB), the Securities and Exchange Commission (SEC), and other regulatory agencies where applicable.

1. Does the non-CPA owned entity have policies and procedures in place to ensure the independence of the CPA firm as required by the AICPA, state CPA societies, state boards of accountancy, state statute, the Independence Standards Board (ISB), the Securities and Exchange Commission (SEC), and other regulatory bodies, if applicable?

   a. If “yes,” how is this information documented (e.g., memoranda, manuals, etc.)? __________
   __________________________________________________________
   __________________________________________________________
   __________________________________________________________
   __________________________________________________________

   b. If “no,” how does the non-CPA owned entity obtain reasonable assurance that all of its personnel are aware of the pertinent regulations, interpretations, and rulings of regulatory bodies that impact the CPA firm? __________
   __________________________________________________________
   __________________________________________________________
   __________________________________________________________
   __________________________________________________________

2. Is there an individual within the non-CPA owned entity responsible for providing guidance, answering questions, monitoring compliance, and resolving matters with respect to independence, integrity, and objectivity requirements?

   a. If “yes,” please identify. ____________________________
   __________________________________________________________

PRP §5100.04

Copyright © 2003, American Institute of Certified Public Accountants, Inc.
b. If "yes," what training or education does the individual receive to ensure that he or she is qualified to perform these functions adequately? ____________________________________________
__________________________________________
__________________________________________
__________________________________________
__________________________________________

   c. If "no," describe how these matters are resolved? ____________________________________________
__________________________________________
__________________________________________
__________________________________________
__________________________________________

3. Are resolutions of independence, integrity, and objectivity questions documented?

   a. If "yes," briefly describe the nature of the documentation, and indicate where the documentation is maintained (e.g., the working paper files or other specific CPA firm or client files). ______
__________________________________________
__________________________________________
__________________________________________
__________________________________________

   b. If "no," how does the non-CPA owned entity determine compliance with professional standards for independence, integrity, and objectivity related to the CPA firm’s practice? ______
__________________________________________
__________________________________________
__________________________________________
__________________________________________

   c. Was it deemed necessary at the time of the CPA firm’s prior peer review to consult with individuals outside the non-CPA owned entity or CPA firm on concerns or matters relating to independence, integrity, or objectivity that impact the CPA firm’s practice? If "yes," please describe. ____________________________________________
__________________________________________
__________________________________________
__________________________________________
__________________________________________
__________________________________________
All personnel of the non-CPA owned entity will be familiar with policies and procedures regarding independence, integrity, and objectivity requirements.

4. Are all personnel of the non-CPA owned entity made aware that the following financial or other relationships by either individuals or entities may be prohibited:

a. Business relationships with the CPA firm’s clients or with non-clients that have investor or investee relationships with clients?

b. Loans to and from the CPA firm’s client’s, including loans from the CPA firm’s financial institutions clients?

c. Family members who are employed by the CPA firm’s clients, or who are in director, officer, manager, or audit sensitive positions with CPA firm clients, including not-for-profit organizations?

d. Past due fees for professional services from the CPA firm’s clients?

e. Accounting or advisory services that have evolved into situations where the service provider has assumed some of the responsibilities of client management?

f. Bookkeeping services to SEC clients of the CPA firm?

g. Client relationships with the non-CPA owned entity from which the CPA firm may lease employees, facilities, etc., if applicable?

h. Positions where personnel in the non-CPA owned entity act as promoters, underwriters, voting trustees, directors, or officers of the CPA firm’s clients?

i. Direct and material financial interests in clients of the CPA firm?

j. Material investments of the CPA firm’s clients in the non-CPA owned entity that allow the clients to exercise significant influence over the non-CPA owned entity?

5. Does the non-CPA owned entity communicate policies and procedures for independence, integrity, and objectivity requirements to all of its personnel?
a. If “yes,” describe how the non-CPA owned entity communicates to all of its personnel the policies and procedures for independence, integrity, and objectivity requirements, and whether those personnel have access to guidance materials regarding independence, integrity and objectivity requirements (e.g., memoranda, manuals, access to databases containing professional and regulatory literature, etc.)

__________________________

__________________________

__________________________

__________________________

b. If “no,” describe how all personnel of the non-CPA owned entity would obtain this information.

__________________________

__________________________

__________________________

__________________________

6. Does the non-CPA owned entity obtain representations from all of its personnel, specifically defined as direct and indirect superiors, or supervisors of other PubliCo entities\(^1\) upon hire and on an annual basis thereafter, stating whether they are familiar with and in compliance with policies and procedures regarding independence, integrity, and objectivity requirements?

a. If “yes,” where are the representations maintained, and who is responsible for reviewing and maintaining them?

__________________________

__________________________

__________________________

__________________________

b. If “no,” how does the non-CPA owned entity monitor compliance by all of its personnel with policies and procedures that are applicable to independence, integrity, and objectivity requirements?

__________________________

__________________________

__________________________

__________________________

\(^1\) The definition of and the independence requirements for “direct and indirect superiors” and “other PubliCo entities” are described in the Code of Professional Conduct Interpretation 101-14 (ET section 101.16).
7. Does the non-CPA owned entity review unpaid fees from clients of the CPA firm to ascertain whether any outstanding amounts may impair the CPA firm’s independence?
   a. If “yes,” please specify who does this, and how often it is done. ________________________________
      ________________________________
      ________________________________
      ________________________________
   b. Please indicate whether there have been any such situations during the year at which time the CPA firm was peer reviewed. __________
      ________________________________
      ________________________________
      ________________________________
   c. If “no,” how does the non-CPA owned entity monitor the CPA firm’s independence with respect to clients with unpaid fees? ________________________________
      ________________________________
      ________________________________
      ________________________________

8. Does the non-CPA owned entity obtain information from the CPA firm on a timely basis as to any changes in the CPA firm’s client list?
   a. If “yes,” describe how often and how the non-CPA owned entity communicates these changes to all of its personnel? ________________________________
      ________________________________
      ________________________________
      ________________________________
   b. If “no,” how does the non-CPA entity ensure that all of its personnel are aware of any changes to the CPA firm’s client list? ________________________________
      ________________________________
      ________________________________
      ________________________________

9. Does the non-CPA owned entity inform all of its personnel on a timely basis of those clients of the CPA firm to which independence policies apply?
Quality Control Policies and Procedures Questionnaire for Non-CPA Owned Entities

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<th>Yes</th>
<th>No</th>
<th>N/A</th>
<th>Comments</th>
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</table>

a. If "yes," how often and how are those personnel informed? For example, does the non-CPA owned entity do any one or more of the following—

i. Prepare and maintain lists of entities who engage the CPA firm to which independence applies?

ii. Make lists available to all of the non-CPA owned entity's personnel to determine their independence?

iii. Other?

b. If "no," how does the non-CPA owned entity determine that all of its personnel know to which entities independence policies apply? _______

__________________________________________

__________________________________________

__________________________________________

Before a member [ET Sec. 92.20] or his or her firm performs nonattest services for accounting and auditing clients, the member should determine that the requirements described in the Code of Professional Conduct, Interpretation 101-3, Performance of Nonattest Services [ET Sec. 101.05], have been met. In cases where the requirements have not been met with respect to nonattest services rendered during the period of the professional engagement/or the period covered by the financial statements, independence would be impaired.

[3a–e under “General Requirements for Performing Nonattest Services” (Interpretation 101-3), provides that before performing nonattest services, the member should establish and document in writing his or her understanding with the client with regard to specific criteria relating to the services. While the requirement for establishing an understanding is effective December 31, 2003, the written documentation requirement has a deferred effective date of December 31, 2004.]

10. Does the non-CPA owned entity provide nonattest services to accounting and auditing clients of the CPA firm?

a. If "yes," were all the requirements of Interpretation 101-3 met for each accounting and auditing client for which nonattest services were performed?

A member who performs a compilation engagement for a client should modify the compilation report to indicate a lack of independence if the member does not meet all of the conditions set out in Interpretation 101-3 when providing a nonattest service to that client (see SSARS No. 1, Compilation and Review of Financial Statements [AR Sec. 100.19]).

AICPA Peer Review Program Manual
b. Was an understanding established with each client regarding the following—
   i. Objectives of the engagement?
   ii. Services to be performed?
   iii. Client's acceptance of its responsibilities?
   iv. Member's responsibilities?
   v. Any limitations of the engagement?

Where nonattest services were provided to accounting and auditing clients, specify the name of the client, type of service(s), how the understanding was established and the method of written documentation, if any, i.e. Engagement Letter (E) or Other (O), if (O), describe.

_______________________
_______________________
_______________________
_______________________
_______________________
_______________________

(attach separate sheet if necessary)

B. Personnel Management

All personnel who are hired by the non-CPA owned entity to perform audits, reviews, compilations, or other attest engagements, and who devote at least 25 percent of their time in performing those engagements, or who have the partner/manager level responsibility for the overall supervision or review of such engagements, will possess the appropriate characteristics to enable them to perform and/or review those engagements competently.

1. Does the non-CPA owned entity have an individual who is responsible for hiring and for managing human resources on behalf of the CPA firm?

   a. If “yes,” please identify. ___________________________
      __________________________
      __________________________
      __________________________
      __________________________

   b. If “no,” how is this accomplished? __________
      __________________________
      __________________________
      __________________________
      __________________________
2. Does the CPA firm submit a budget to the non-CPA owned entity for the number and level of personnel required for attest work?

   a. If "yes," how often is a budget submitted by the CPA firm?

   ____________________________
   ____________________________
   ____________________________
   ____________________________

   b. If "no," how does the non-CPA owned entity determine that the CPA firm has adequate staff to perform its attest engagements?

   ____________________________
   ____________________________
   ____________________________
   ____________________________

3. Does the non-CPA owned entity have criteria for hiring professionals on behalf of the CPA firm? If "yes," please describe—

   a. The attributes, achievements, and experiences desired in entry level and experienced personnel to enable them to perform competently within the CPA firm. Highlight any items, which represent requirements for hire.

   ____________________________
   ____________________________
   ____________________________
   ____________________________

   b. How the non-CPA owned entity evaluate the personnel characteristics of professionals, such as: integrity, competence, and motivation of hires?

   ____________________________
   ____________________________
   ____________________________
   ____________________________

   c. Any additional information the non-CPA owned entity requires for experienced hires for the CPA firm, such as: background checks, and inquiries about any outstanding regulatory actions.

   ____________________________
   ____________________________
   ____________________________
   ____________________________
If "no," how does the non-CPA owned entity determine that the personnel hired for the CPA firm are appropriate for the position they are hired to fill?

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<th>Yes</th>
<th>No</th>
<th>N/A</th>
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4. Does the non-CPA owned entity have criteria for determining which individuals will be involved in the interviewing and hiring process on behalf of the CPA firm?

   a. If "yes," how are these individuals trained?

   b. If "no," how does the non-CPA owned entity determine who is appropriate for this role? Please describe.

Professional personnel who devote at least 25 percent of their time in performing audits, reviews, compilations, or other attest engagements, or who have the partner/manager level responsibility for the overall supervision or review of such engagements will participate in general and industry-specific continuing professional education (CPE) and other professional activities, which will enable them to satisfy responsibilities assigned, and to fulfill applicable continuing professional education requirements of the AICPA and regulatory agencies.

5. Does the non-CPA owned entity have an individual who is responsible for CPE and professional development activities?

   a. If "yes," please identify and describe his or her qualifications.
b. If "no," how does the non-CPA owned entity monitor CPE and professional development activities? Please explain.

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6. Do professional personnel that are assigned to audit and accounting engagements take courses related to those engagements?

a. Please provide an approximation of the type of CPE taken:

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<tr>
<th>Type of CPE</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Self-study courses</td>
<td>___%</td>
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<tr>
<td>In-house training program</td>
<td></td>
</tr>
<tr>
<td>(i) Developed by the firm</td>
<td>___%</td>
</tr>
<tr>
<td>(ii) Obtained from outside vendors</td>
<td>___%</td>
</tr>
<tr>
<td>State society or AICPA programs</td>
<td>___%</td>
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b. Describe how the non-CPA owned entity assures that professional personnel participate in CPE related to accounting and auditing assignments, including specialized industries. For example, do they submit CPE plans relevant to their practice needs?

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7. Are all professional personnel in compliance with the professional education requirements of the board(s) of accountancy in state(s) where they are licensed, the AICPA (if applicable), the state society (if applicable), and Government Auditing Standards—the “Yellow Book” (if applicable)? If the answer is “no”—

a. Explain why the personnel are not in compliance.

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b. Attach a list of those personnel who are not in compliance, and indicate the plan for correcting the situation.

________________________________________________________________________
________________________________________________________________________
________________________________________________________________________

8. Does the non-CPA owned entity have an individual who maintains CPE records and course materials for professional personnel?

a. If "yes," please identify. ________________________________________________
   ____________________________________________
   ____________________________________________
   ____________________________________________

b. If "no," how does the non-CPA owned entity determine that all professional personnel are in compliance with applicable CPE requirements?

________________________________________________________________________
________________________________________________________________________
________________________________________________________________________

9. Does the non-CPA owned entity have an orientation and training policy for new hires who will devote at least 25 percent of their time in performing audits, reviews, compilations, or other attest engagements, or who will have the partner/manager level responsibility for the overall supervision or review of such engagements?

a. If "yes," briefly describe the policy. ______________________________________
   ____________________________________________
   ____________________________________________
   ____________________________________________

b. If "no," describe how the non-CPA owned entity trains new hires. ________________
   ____________________________________________
   ____________________________________________
   ____________________________________________
10. How are professional personnel informed as to changes in accounting and auditing standards, independence, integrity, and objectivity requirements, and the CPA firm's technical policies and procedures with respect to them? For example, by the non-CPA owned entity or CPA firm distributing technical pronouncements, and holding training courses on recent changes and areas noted by the CPA firm as needing improvement?

   a. If "yes," briefly describe. ____________________________
      ____________________________________________________
      ____________________________________________________
      ____________________________________________________
      ____________________________________________________

   b. If "no," how does the non-CPA owned entity determine that professional personnel are informed of the changes in professional standards? ____________________________
      ____________________________________________________
      ____________________________________________________
      ____________________________________________________
      ____________________________________________________

11. Are professional personnel encouraged by the non-CPA owned entity and/or by the CPA firm to participate in other professional activities, such as graduate level courses, membership in professional organizations, serving on professional committees, and writing for professional publications?

   Professional personnel who devote at least 25 percent of their time in performing audits, reviews, compilations, or other attest engagements, or who have the partner/manager level responsibility for the overall supervision or review of such engagements, and who are selected for advancement will have the qualifications necessary to fulfill the responsibilities they will be called upon to assume. This would be based on the degree of technical training and proficiency required in the circumstances, and the nature and extent of supervision that was provided for assignments relating to audits, reviews, compilations, or other attest engagements performed by the CPA firm.

12. Does the non-CPA owned entity have a system in place to provide information necessary to the CPA firm in order to enable the CPA firm to make appropriate personnel decisions, such as assignments for audits, reviews, compilations, or other attest engagements, personnel evaluations, etc.?
a. If “yes,” how is this information provided to the CPA firm? 

b. If “no,” how does the non-CPA owned entity ensure that the CPA firm makes appropriate personnel decisions?

13. Does the non-CPA owned entity have an individual who is responsible for advancement and termination decisions?

a. If “yes,” who is responsible for:

i. Establishing evaluation and advancement criteria for professional personnel, which would include the development of evaluation forms? Also, briefly describe whether criteria are documented (e.g., personnel manual).

ii. Making advancement and termination decisions, including identifying responsibilities and requirements and requirements for evaluation at each professional level, and deciding who will prepare evaluations?

iii. Development of the evaluations form for each professional classification?
b. If “no,” how are these decisions made and implemented?
   __________________________________________
   __________________________________________
   __________________________________________
   __________________________________________
   __________________________________________

14. Does the non-CPA owned entity have an arrangement with the CPA firm for an individual to be responsible for advancement and termination decisions concerning acquired and contracted leased and per diem employees, who devote at least 25 percent of their time in performing audits, reviews, compilations, or other attest engagements, or who have the partner/manager level responsibility for the overall supervision or review of such engagements, which would include evaluation of personnel needs, establishment of hiring objectives, and providing final approval?

a. If “yes,” who is responsible for:
   i. Determining whether they performed adequately?  
      __________________________________________
      __________________________________________
      __________________________________________
      __________________________________________
      __________________________________________

   ii. Evaluating their abilities and qualifications based on performance?  
       __________________________________________
       __________________________________________
       __________________________________________
       __________________________________________
       __________________________________________

   iii. Determining how they should be used on future engagements?  
        __________________________________________
        __________________________________________
        __________________________________________
        __________________________________________
        __________________________________________

b. If “no,” how are these decisions made and implemented?
   __________________________________________
   __________________________________________
   __________________________________________
   __________________________________________
   __________________________________________
15. Does the non-CPA owned entity have a system in place for evaluating the performance of professional personnel, and advising them of their progress in the CPA firm? If “yes,”—

   a. Who is responsible for performing the evaluation?

   ________________________________________________________________
   ________________________________________________________________
   ________________________________________________________________
   ________________________________________________________________

   b. How often are these evaluations performed?

   ________________________________________________________________
   ________________________________________________________________
   ________________________________________________________________
   ________________________________________________________________

   c. Are standard evaluation forms used? If not, briefly describe whether they are documented by another means.

   ________________________________________________________________
   ________________________________________________________________
   ________________________________________________________________
   ________________________________________________________________

   If “no,” how are those professional personnel informed of their progress in the CPA firm?

   ________________________________________________________________
   ________________________________________________________________
   ________________________________________________________________
   ________________________________________________________________

16. Does the non-CPA owned entity counsel professional personnel regarding their progress and career opportunities by—

   a. Reviewing performance evaluations with personnel, discussing future objectives of the CPA firm and the individual and assignment preferences?

   b. Periodically evaluating owners of the CPA firm? For example, by means of peer evaluation, or self-appraisal.

C. Monitoring

   The non-CPA owned entity will consider and evaluate, on an ongoing basis, the relevance and adequacy of its policies and procedures related to independence, integrity and objectivity as applicable to all of its personnel,
and to personnel management as applicable to professional personnel who devote at least 25 percent of their time in performing audits, reviews, compilations, or other attest engagements, or who have the partner/manager level responsibility for the overall supervision or review of such engagements.

1. Does the non-CPA owned entity have a qualified individual who is responsible for monitoring quality assurance?
   a. If "yes," please identify and describe his or her qualifications.________________________________________
   _____________________________________________________________
   _____________________________________________________________
   _____________________________________________________________

   b. If "no," how does the non-CPA owned entity determine that policies and procedures are adequate?
   _____________________________________________________________
   _____________________________________________________________
   _____________________________________________________________
   _____________________________________________________________

2. Are the following quality assurance matters considered:
   a. The need to revise the non-CPA owned entity's guidance for changes in professional standards as related to independence, continuing professional education (CPE), and other regulatory requirements?
   b. The need to check the compliance, effectiveness and appropriateness of (1) independence, objectivity and integrity as applicable to all personnel of the non-CPA owned entity, and (2) personnel management as applicable to the professional personnel of the CPA firm?

   The non-CPA owned entity will consider and evaluate, on an ongoing basis, the appropriateness of the guidance materials and any practice aids it provides to the CPA firm.

3. Does the non-CPA owned entity have a system in place to assure that the practice aids regarding independence and other technical matters provided by the non-CPA owned entity are updated for new professional standards, and are effective for the
CPA firm’s practice? If “no,” how does the non-CPA entity determine that the practice aids are current?

________________________________________________________

________________________________________________________

________________________________________________________

4. Does the non-CPA owned entity inform and provide guidance to professional personnel regarding new professional standards, regulatory requirements, and related changes to CPA firm policy or practice aids as related to independence and other technical standards? If “no,” how are professional personnel kept current?

________________________________________________________

________________________________________________________

________________________________________________________

The non-CPA owned entity will consider and evaluate on an ongoing basis, the effectiveness of the CPA firm’s professional development programs.

5. Does the non-CPA owned entity monitor professional development programs, which would include:

   a. Evaluating training programs to determine whether they are achieving their objectives?

   b. Reviewing summaries of CPE records to track individual’s compliance with the requirements of the AICPA and other regulatory bodies?

   c. Considering whether the professional development programs should be revised based on the results of the CPA firm’s monitoring of its peer review?

   d. Soliciting information from professional personnel regarding the effectiveness of the training programs?

      If “no,” how does the non-CPA owned entity determine that its professional development programs are appropriate?

      _______________________________________________________

      _______________________________________________________

      _______________________________________________________

The non-CPA owned entity will consider and evaluate, on an ongoing basis, compliance with its system as related to policies and procedures on independence, integrity.
6. Does the non-CPA owned entity perform timely monitoring of policies and procedures relating to independence, integrity and objectivity, and personnel management on an ongoing basis to evaluate compliance with the policies and procedures relating to those elements of quality control?

a. If “yes,” does the non-CPA owned entity assign responsibility to an individual to perform monitoring? Please identify and describe his or her qualifications.

b. If “yes,” does monitoring include:

i. Appropriate tests of compliance with policies and procedures?

ii. Reviewing correspondence and documentation and interviewing: (1) all of the non-CPA owned entity’s personnel in order to determine compliance with policies and procedures regarding independence, integrity and objectivity, (2) the professional personnel who devote at least 25 percent of their time in performing audits, reviews, compilations, or other attest engagements, or who have the partner/manager level responsibility for the overall supervision or review of such engagements, and (3) all of the non-CPA owned entity’s personnel to determine compliance with policies and procedures regarding monitoring?

c. If “no,” how does the non-CPA owned entity determine that all of its personnel comply with the applicable policies and procedures? ___

AICPA Peer Review Program Manual

PRP §5100.04
7. Does the non-CPA owned entity timely summarize and communicate the results of its monitoring to all of its personnel, and any suggested changes to policies and procedures to the appropriate levels of personnel in the non-CPA owned entity, and in the CPA firm?

<table>
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<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
<th>Comments</th>
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8. Has the non-CPA owned entity taken specific actions or steps based upon the results of the monitoring to assure compliance with policies and procedures? If "no," please explain the rationale.

[The next page is 5201.]
PRP Section 5200

Guidelines for Review of Quality Control Policies and Procedures for Non-CPA Owned Entities Closely Aligned With a CPA Firm

.01 This section of the manual contains a questionnaire that the reviewer should complete when reviewing the non-CPA owned entity’s responses to the Quality Control Policies and Procedures Questionnaire for Non-CPA Owned Entities Closely Aligned With a CPA Firm. Completion of this questionnaire assists the reviewer in analyzing certain portions of the CPA firm’s system of quality control that reside at or operate in conjunction with the system of control of the non-CPA owned entity with which the CPA firm is closely aligned through common employment, leasing of employees, equipment, facilities, etc., or similar arrangements. In this situation, the CPA firm sells all or a portion of its non-attest practice to a non-CPA owned entity. However, the majority of the financial interests in the CPA firm’s attest practice is owned by CPAs. (See AICPA Code of Professional Conduct Interpretation 101-14, ET section 101.16, for further information regarding the effect of alternative practice structures on CPA firms.)

.02 The CPA firm’s system of quality control should encompass all of the five elements of quality control: (1) independence, integrity and objectivity, (2) personnel management, (3) acceptance and continuance of clients, (4) engagement performance, and (5) monitoring. However, certain portions of the CPA firm’s system of quality control can be delegated to the non-CPA owned entity while others cannot be delegated. This questionnaire addresses only a review of those portions of the non-CPA owned entity’s system of control that support the CPA firm’s system of quality control, which would generally include the following elements of quality control: (1) independence, integrity and objectivity, (2) personnel management, and (3) monitoring of the elements noted in (1) and (2). Accordingly, this questionnaire relates to the elements of quality control for which the non-CPA owned entity has established policies and procedures. PRP section 4500 should be completed by the reviewer in analyzing those elements of quality control that reside within the CPA firm’s system of quality control. Accordingly, PRP section 4500 should be completed by the peer review team for those sections.

.03 This questionnaire can also be used by a CPA firm performing and reporting on an attest engagement under Statement on Standards for Attestation Engagements (SSAE) No. 10. For this attest engagement, the non-CPA owned entity would retain a CPA firm to perform an examination of the non-CPA owned entity’s system that could be used by the peer reviewers of each CPA firm closely aligned with the non-CPA owned entity. The SSAE No. 10 report would be required by the non-CPA owned entity once a year. The bold lettering in the questionnaire are the assertions in the form of questions relevant to the non-CPA owned entity’s system, which are followed by procedures to be followed by the reviewer to expand and report on those assertions.

.04 The reviewer should respond directly with “Yes,” “No,” or “N/A” answers, and briefly describe, where appropriate, the results of his/her evaluation of the policies and procedures the CPA firm has in effect. Lengthy and elaborate answers are not expected.
AICPA Peer Review Program
GUIDELINES FOR REVIEW OF QUALITY CONTROL POLICIES AND PROCEDURES
FOR NON-CPA OWNED ENTITIES CLOSELY ALIGNED WITH A CPA FIRM

A. Independence, Integrity, and Objectivity

Does the non-CPA owned entity have a system in place to ensure that the non-CPA owned entity, other associated entities and their personnel adhere to the policies and procedures that are applicable to independence, integrity, and objectivity requirements to the extent required? These requirements include: regulations, interpretations, and rulings of the AICPA, state CPA societies, state boards of accountancy, state statute, the Independence Standards Board (ISB), the Securities and Exchange Commission (SEC), and other regulatory agencies where applicable.

1. Obtain an understanding of the non-CPA owned entity’s policies and procedures by a review of the responses to the independence, integrity and objectivity section (part A, questions 1–3) of the Quality Control Policies and Procedures Questionnaire for Non-CPA Owned Entities Closely Aligned With a CPA Firm (the “questionnaire”), and by interviewing the appropriate parties.

2. Compare the policies and procedures on independence, integrity, and objectivity with professional and regulatory requirements. Describe any deficiencies noted. ____________________________________

3. Determine how resolutions of independence, integrity, and objectivity questions are resolved, and describe the nature of the documentation of those resolutions and where such documentation is maintained?

4. Inquire as to whether there were any noted situations where there:
   a. Was a lack of independence?
   b. The requirements of the Code of Professional Conduct, Interpretation 101-3, Performance of Nonattest Services [ET Sec. 101.05] were not met?
   c. If “yes,” did the CPA firm withdraw from the engagement or appropriately qualify its report?
5. Conclude as to whether the system pertaining to this assertion is appropriately designed based on the procedures performed above.

Are all personnel of the non-CPA owned entity familiar with the policies and procedures regarding independence, integrity and objectivity requirements?

6. Obtain an understanding of the policies and procedures by a review of the responses to the independence, integrity and objectivity section (part A, questions 4–9) of the Quality Control Policies and Procedures Questionnaire for Non-CPA Owned Entities Closely Aligned With a CPA Firm (the "questionnaire"), and by interviewing the appropriate parties.

7. Determine by review of documentation and inquiry whether the non-CPA owned entity has any procedures in place to provide reasonable assurance that new or revised rulings on independence, integrity and objectivity matters are considered appropriate to the CPA firm's practice.

8. Determine by review of documentation and inquiry whether the non-CPA owned entity obtains representations from all of its personnel, specifically defined as direct and indirect superiors, or supervisors of other PubliCo entities¹ upon hire and on an annual basis thereafter, stating whether they are familiar with and in compliance with policies and procedures regarding independence, integrity, and objectivity requirements.

9. Identify by review of files or by interviewing a selection of situations (indicate number ____) in which independence, integrity, and objectivity questions arose during the year being peer reviewed, and consider whether the resolution of such questions appears appropriate.

10. Determine by review of documentation and interview whether all of the personnel of the non-CPA owned entity are aware of those financial or other relationships that may be prohibited.

11. Determine by review of documentation and interview whether the non-CPA owned entity communicates to all of its personnel the policies and procedures for independence, integrity, and objectivity requirements, and how those requirements are communicated.

---

¹ The definition of and the independence requirements for "direct and indirect superiors" and "other PubliCo entities" are described in the Code of Professional Conduct Interpretation 101-14 (ET section 101.16)
12. Determine by review of documentation and interview whether the non-CPA owned entity informs all of its personnel on a timely basis of those entities that engage the CPA firm to which independence policies apply.

13. Determine by review of documentation and interview whether the non-CPA owned entity obtains information from the CPA firm on a timely basis as to any changes in the CPA firm’s client list.

14. Conclude as to whether the system pertaining to this assertion is appropriately designed based on the procedures performed.

B. Personnel Management

Does the non-CPA owned entity have a system in place to determine whether all personnel who are hired by the non-CPA owned entity to perform audits, reviews, compilations, or other attest engagements, and who devote at least 25 percent of their time in performing those engagements, or who have the partner/manager level responsibility for the overall supervision or review of such engagements, possess the appropriate characteristics to enable them to perform those engagements competently?

1. Obtain an understanding of the policies and procedures by a review of the responses to the personnel management section (part B, questions 1–4 of the Quality Control Policies and Procedures Questionnaire for Non-CPA Owned Entities Closely Aligned With a CPA Firm (the “questionnaire”), and by interviewing the appropriate parties.

2. Determine by review of documentation and inquiry whether the non-CPA owned entity obtains a budget from the CPA firm for the number and level of personnel required for attest work.

3. Select a sample (indicate number ___) of new hires, including hires joining at supervisory levels who perform audits, reviews, compilations, or other attest engagements, and who devote at least 25 percent of their time in performing those engagements, or who have the partner/manager level responsibility for the overall supervision or review of such engagements. Obtain each individual’s personnel file, and do the following:

   a. Review the documentation and evaluate whether the individual possesses the desired attributes, achievements, and experience required for the
CPA firm. If not, ascertain from other documentation or by inquiry why an exception was made.

b. Determine whether the background information and other documentation required by the non-CPA owned entity’s policy was obtained.

c. Select one or more of these new hires for an interview. (See separate interview guidelines.)

4. Conclude as to whether the system pertaining to this assertion is appropriately designed based on the procedures performed.

Do professional personnel who devote at least 25 percent of their time in performing audits, reviews, compilations, or other attest engagements, or who have the partner/manager level responsibility for the overall supervision or review of such engagements participate in general and industry-specific continuing professional education (CPE) and other professional activities, which will enable them to satisfy responsibilities assigned, and to fulfill applicable continuing professional educational requirements of the AICPA and regulatory agencies?

5. Obtain an understanding of the policies and procedures by a review of the responses to the personnel management section (part B, questions 5–11) of the Quality Control Policies and Procedures Questionnaire for Non-CPA Owned Entities Closely Aligned With a CPA Firm, (the “questionnaire”), and by interviewing the appropriate parties.

6. Inquire as to whether the non-CPA owned entity has a qualified individual(s) who is responsible for the CPA firm’s CPE and professional development activities, and who maintains CPE records and course materials, and how the non-CPA owned entity considers CPE plan requests made by the CPA firm closely aligned with the non-CPA owned entity.

7. Determine whether professional personnel that are assigned to accounting and auditing engagements take courses related to those engagements. Identify the type of CPE taken, and whether the CPE is appropriate.

8. Review the non-CPA owned entity’s CPE records on a test basis and consider whether those records demonstrate that—

   a. Professional personnel participated in CPE related to accounting and auditing assignments, including specialized industries.
b. Professional personnel were in compliance with the professional education requirements of the board(s) of accountancy in state(s) where they are licensed, the AICPA (if applicable), the state society (if applicable), and Government Auditing Standards—the “Yellow Book” (if applicable).

9. Interview selected professional staff, and obtain their impressions of the CPE function and their on-the-job training, and determine: (1) whether new professional standards and guidance materials are made available to them on a timely basis, and (2) whether they participate in professional development activities. (See Separate interview guidelines.)

10. Determine whether the non-CPA owned entity has an orientation and training policy for new hires for the CPA firm who will devote at least 25 percent of their time in performing audits, reviews, compilations, and other attest engagements, or who will have the partner/manager level responsibility for the overall supervision or review of such engagements.

11. Determine how professional personnel are informed as to changes in accounting and auditing standards, independence, integrity and objectivity requirements, and the CPA firm’s technical policies with respect to them.

12. Determine whether professional personnel are encouraged by the non-CPA owned entity or by the CPA firm to participate in other professional activities, such as: graduate level courses, membership in professional organizations, serving on professional committees, and writing for publication.

13. Conclude as to whether the system pertaining to this assertion is appropriately designed based on the procedures performed.

Does the non-CPA owned entity have a system in place to determine whether professional personnel who devote at least 25 percent of their time in performing audits, reviews, compilations, or other attest engagements, or who have the partner/manager level responsibility for the overall supervision or review of such engagements, and who are selected for advancement have the qualifications necessary to fulfill the responsibilities they will be called upon to assume?

14. Obtain an understanding of the policies and procedures by a review of the responses to the personnel management section (part B, questions 12–16) of the
<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
<th>Comments, Findings Noted</th>
</tr>
</thead>
</table>

**Quality Control Policies and Procedures Questionnaire for Non-CPA Owned Entities Closely Aligned With a CPA Firm** (the "questionnaire"), and by interviewing the appropriate parties.

15. Determine whether those qualifications are based on the degree of technical training and proficiency required in the circumstances, and the nature and extent of supervision that was provided to professional personnel for assignments related to audits, reviews, compilations, or other attest engagements performed by the CPA firm.

16. Inquire as to whether the non-CPA owned entity has an individual who is responsible for advancement and termination decisions.

17. Determine how the non-CPA owned entity evaluates the performance of professional personnel, and advises them of their progress in the firm and career opportunities, which would include identifying the individual who performs these evaluations, and how these evaluations are performed.

18. Review job descriptions and responsibilities, evaluate advancement criteria, and determine whether they are reasonable.

19. For a sample of professional personnel (indicate number ___), review personnel files, personnel evaluations, or other documentation to determine whether staff members are reviewed, evaluated, and promoted in accordance with policy.

20. Interview selected staff to determine their awareness of advancement policies and procedures and whether they are followed. (See separate interview guidelines.)

21. Conclude as to whether the system pertaining to this assertion is appropriately designed based on the procedures performed.

### C. Monitoring

*Does the non-CPA owned entity consider and evaluate on an ongoing basis, the relevance and adequacy of its system when the CPA firm's system of quality control resides at or operates in conjunction with the system of control at the non-CPA entity?*
1. Obtain an understanding of the policies and procedures by review of the responses to the monitoring section, (part C, questions 1-2) of the Quality Control Policies and Procedures Questionnaire for Non-CPA Owned Entities Closely Aligned With a CPA Firm (the "questionnaire"), and by interviewing the appropriate parties.

2. Inquire as to whether the non-CPA owned entity has assigned a qualified individual who is responsible for monitoring the quality assurance of its system.

3. Conclude as to whether the system pertaining to this assertion is appropriately designed based on the procedures performed.

**Does the non-CPA owned entity consider and evaluate on an ongoing basis the appropriateness of the guidance materials and practice aids it provides to the CPA firm?**

4. Obtain an understanding of the policies and procedures by review of the monitoring section (part C, questions 3-4) of the Quality Control Policies and Procedures Questionnaire for Non-CPA Owned Entities Closely Aligned With a CPA Firm (the "questionnaire"), and by interviewing the appropriate parties.

5. Review practice aids and determine that they were up-to-date.

6. Review the method of informing professional personnel who devote at least 25 percent of their time in performing audits, reviews, compilations, or other attest engagements, or who have the partner/manager level of responsibility for the overall supervision or review of such engagements regarding changes to professional standards, regulatory requirements, and any related changes to policy and practice aids.

7. Conclude as to whether the system pertaining to this assertion is appropriately designed based on the procedures performed.

**Does the non-CPA owned entity consider and evaluate on an ongoing basis the effectiveness of its professional development programs?**

8. Obtain an understanding of the policies and procedures by review of the responses to the monitoring section (part B, question 5) of the Quality Control Policies and Procedures Questionnaire for Non-CPA Owned Entities Closely Aligned With a CPA Firm (the "questionnaire"), and by interviewing the appropriate parties.

9. Inquire as to whether the non-CPA owned entity interviewed a sample of its professional personnel regarding the effectiveness of the training programs.
10. Review actions taken where professional personnel were not in compliance with CPE requirements of the AICPA as well as other regulatory bodies.

11. Conclude as to whether the system pertaining to this assertion is appropriately designed based on the procedures performed.

**Does the non-CPA owned entity consider and evaluate on an ongoing basis, the effectiveness of the CPA firm’s compliance with its system as related to policies and procedures on independence, integrity and objectivity as applicable to all of its personnel, and on personnel management as applicable to the CPA firm’s professional personnel who devote at least 25 percent of their time in performing audits, reviews, compilations, or other attest engagements, or who have the partner/manager level responsibility for the overall supervision or review of such engagements?**

12. Obtain an understanding of the policies and procedures by review of the monitoring section (part C, questions 6–8) of the Quality Control Policies and Procedures Questionnaire for Non-CPA Owned Entities Closely Aligned With a CPA Firm (the “questionnaire”), and by interviewing the appropriate parties.

13. Review the available documentation supporting the monitoring procedures performed since the last review, and evaluate whether:

   a. Those who conducted the monitoring procedures were qualified to perform the monitoring.

   b. The procedures were performed timely and covered reviewing and testing compliance with the system.

   c. The findings from the monitoring procedures were appropriately summarized and documented.

   d. The materials used in performing the monitoring procedures, such as questionnaires, programs, and checklists, are adequate.

   e. Appropriate corrective actions were taken on findings as a result of the monitoring procedures.

14. Interview selected personnel from the non-CPA owned entity to determine whether the findings of the monitoring procedures under review were communicated and considered by all of the non-CPA owned entity’s personnel.
15. Conclude as to whether the system pertaining to this assertion is appropriately designed based on the procedures performed.

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<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
<th>Comments, Findings Noted</th>
</tr>
</thead>
</table>

[The next page is 5301.]
PRP Section 5300

Staff Interview Questionnaire for Non-CPA Owned Entities Closely Aligned With a CPA Firm

.01 The review of those portions of a CPA Firm’s system of quality control that reside at or operate in conjunction with the system of control at a non-CPA owned entity requires that professional personnel who devote at least 25 percent of their time in performing audits, reviews, compilations, or other attest engagements, or who have the partner/manager level responsibility for the overall supervision and review of those engagements be interviewed. Those portions would generally include policies and procedures relating to the following elements of quality control: (1) independence, integrity and objectivity, (2) personnel management, and (3) monitoring of the elements noted in (1) and (2). The objective of these interviews is to provide corroborative evidence that certain policies and procedures have been properly communicated to all personnel of the non-CPA owned entity.

.02 When soliciting information, reviewers should consider the nature of the topic, the level of the person to be interviewed, and the size of the CPA firm. This questionnaire is designed to guide the reviewer in conducting interviews of selected personnel, and should be completed by the reviewer in conjunction with PRP section 5200, Guidelines for Review of Quality Control Policies and Procedures for Non-CPA Owned Entities Closely Aligned With a CPA Firm.

.03 The individuals interviewed should have varying levels of experience and background. The number of individuals to be interviewed will be affected by the size and nature of the firm’s practice. Personnel of the non-CPA owned entity who are not directly involved in the performance of audits, reviews, compilations, or other attest engagements should be interviewed, in order to determine whether they are familiar with the non-CPA owned entity’s policies and procedures as related to independence, integrity and objectivity, and to the monitoring of that quality control element.
AICPA Peer Review Program

STAFF INTERVIEW QUESTIONNAIRE FOR NON-CPA OWNED ENTITIES CLOSELY ALIGNED WITH A CPA FIRM

This questionnaire lists suggested interview questions that may be tailored as the interviewer deems appropriate. Interviews can also elicit reactions or perceptions of which the non-CPA owned entity should be, but is not aware. The interviewee should be advised that no record is kept of his or her name.

<table>
<thead>
<tr>
<th>Office Code No.</th>
<th>Interviewee Code</th>
<th>Level of Interviewee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Professional Staff? Yes ___ No ___</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Non-CPA Entity Personnel? Yes ___ No ___</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Suggested Questions

A. Independence, Integrity, and Objectivity

1. How does the non-CPA owned entity inform you of its policies and procedures to which the entity’s independence policies apply?

2. Are you aware of those financial or other relationships that may be prohibited?

3. If you had a question on an independence matter, what would you do?

4. Have you represented whether you are independent with respect to the CPA firm’s clients? If so, how were these representations provided to you by the non-CPA owned entity’s representative (e.g., memo, questionnaire, or some other form of documentation)?

5. How often do you provide forms of representations to the non-CPA entity’s representative, which states whether you are independent with respect to CPA firm’s clients (e.g., monthly, quarterly, annually, etc.)?

6. Were you involved in any situations during the peer review year where questions arose regarding independence, integrity and objectivity and, if so, do you believe that resolutions of those questions were appropriate?

7. Are you aware of any engagements performed by the CPA firm in which you believe the non-CPA owned entity:
Suggested Questions

<table>
<thead>
<tr>
<th>a.</th>
<th>Was not independent?</th>
</tr>
</thead>
</table>
| b. | Failed to meet the requirements of the Code of Professional Conduct, Interpretation 101-3, Performance of Nonattest Services [ET Sec. 101.05]?

If “yes,” which engagements? Specify: __________________

<table>
<thead>
<tr>
<th>8.</th>
<th>Does the non-CPA owned entity inform you on a timely basis of those entities that engage the CPA firm to which independence policies apply, as well as any changes to the CPA firm’s client list?</th>
</tr>
</thead>
</table>

| 9. | Where applicable, did you adhere to the independence requirements including regulations, interpretations and rulings of the AICPA, state CPA society, state board of accountancy, the Independence Standards Board, the Securities and Exchange Commission, and other regulatory agencies? Yes ___ No ___ If “no,” why? |

B. Personnel Management

1. How were you informed of the policies and procedures that are relevant to you?

2. If professional staff who devote at least 25 percent of their time in performing audits, reviews, compilations, or other attest engagements, or who have the partner/manager level responsibility for the overall supervision or review of such engagements being interviewed by the non-CPA owned entity are involved in the recruiting process, inquire into the following:

   a. Whether he/she was informed about the non-CPA owned entity’s hiring objectives prior to becoming involved in the hiring process? Yes ___ No ___. If “yes,” how were they apprised of this information?

   b. What attributes, achievements, and experiences are expected from entry level and experienced hires in order to enable them to perform competently?

   c. What training did he/she receive prior to becoming involved in the recruiting process?

3. What kind of assignments have you had in the past year?
4. Did you believe that the assignments you received were based on the degree of training and proficiency you possessed at the time, and were those assignments commensurate with the nature and extent of supervision to be provided?

5. What types of courses and industry specific continuing professional education development activities did you participate in during the last year, and do you believe that these activities contribute to your ability to perform the responsibilities assigned to you?

6. Are you encouraged by the non-CPA owned entity or by the CPA firm to participate in other professional activities, such as: graduate level courses, membership in professional organizations, serving on professional committees, and writing for publication?

7. Do you believe that the on-the-job training that you received from the CPA firm during the past year was adequate to enable you to perform the responsibilities assigned to you on general and industry-specific engagements?

8. If you received such on-the-job training from somewhere other than the CPA firm, where was such training obtained? Was such training adequate to enable you to perform the responsibilities assigned to you on general and industry-specific engagements?

9. Where applicable, are new professional standards, independence requirements, and guidance materials, including updated changes to such information, distributed on a timely basis?

10. What are the responsibilities of your position?

11. What are the qualifications deemed necessary for promotion to the level immediately above you?

12. How often have you been evaluated during the past year, and did these evaluations include a discussion of your progress and career opportunities?

13. Do you believe that these evaluations were performed on a timely basis?
14. To what extent did you receive written feedback on your performance? Do you believe that feedback is constructive?

C. Monitoring

1. Are you timely informed of any changes to professional standards, regulatory requirements, and any related changes to policy and practice aids?

2. Have you provided your opinion and views regarding the effectiveness of the training programs? If "yes," how did you provide this feedback (e.g., interview, questionnaire, memo, etc.)?

3. Were you informed as to the findings and results of the monitoring procedures, as well as the corrective actions, if any, taken by the non-CPA owned entity as a result of those findings?

4. Have you been informed as to any findings resulting from the monitoring procedures that related to your specific engagements or to the types of services which you performed (e.g., audits, reviews, compilations, etc.)? Yes ___ No ___ If “yes,” how were those findings communicated to you?

Date of Interview ________________________________

Interviewer’s Signature ________________________________

Date Interview Questionnaire Reviewed by Team Captain/Reviewer ________________________________

Team Captain’s/Reviewer’s Signature ________________________________
PRP Section 6000
Engagement Reviews

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6200 Instructions to Reviewers Performing Engagement Reviews
6300 Instructions for Use of Matter for Further Consideration Forms—Engagement Reviews
6400 Engagement Statistics Data Sheet—Engagement Reviews

[The next page is 6101.]
## PRP Section 6100

### Instructions to Firms Having an Engagement Review

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AICPA Peer Review Program Manual

PRP §6100
.01 An engagement review is available to firms that do not perform engagements under Statements on Auditing Standards (SASs) or examinations of prospective financial statements under the Statements on Standards for Attestation Engagements (SSAEs) but that do provide other types of services listed in the definition of an accounting and auditing practice for peer review purposes as defined in paragraph 4 of the AICPA Standards for Performing and Reporting on Peer Reviews [(the Standards); (PRP section 3100.04)]. See Exhibit 1 for a copy of that paragraph. Engagement reviews are administered by state CPA societies that elect to participate in the program. One of those entities, as appropriate (the administering entity) will contact your firm at the appropriate time to make arrangements for the conduct of the review. In preparation for the review, you should read the applicable sections of the Standards issued by the AICPA Peer Review Board (at least the sections headed Introduction, General Considerations, Performing Engagement Reviews, Reporting on Engagement Reviews, and Acceptance of System, Engagement and Report Reviews).

.02 Prior to the review, the administering entity or the assigned reviewer will ask you to provide summarized information showing the number of accounting and review engagements and attestation engagements,\(^1\) classified into major industry categories and broken down by each partner of the firm who is responsible for the issuance of reports on accounting and review services and attest services. The form that will be used for this purpose is reproduced in Appendix A to these instructions.

.03 Discuss with the reviewer the twelve-month period to be covered by the review. Ordinarily, the review should be performed within three to five months following the end of the year to be reviewed.

.04 Based on that information, the administering entity or the assigned reviewer will advise you of the types of engagements to be selected for review. (For example, you may have reported that Partner A issues review reports on four construction contractors, two retailers, and ten manufacturers, while Partner B issues compilation reports on thirty doctors and review reports on five restaurants. You may be asked to submit one of Partner A’s review reports on a construction contractor and one of Partner B’s compilation reports on a doctor. You will select the specific engagements following those instructions.)

.05 The number of engagements selected should ordinarily adhere to the following guidelines:

a. Select one engagement from each area of service performed by the firm:

  • Review of historical financial statements
  • Compilation of historical financial statements with disclosures
  • Compilation of historical financial statements that omits substantially all disclosures.
  • Attestation\(^2\)

b. Select one engagement from each partner of the firm responsible for the issuance of reports listed in a above.

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

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

.06 Within thirty days of being notified by the reviewer or the administering entity of the type of engagements selected for review, the firm should submit the following information for each engagement selected—

---

1 See paragraph 4 of the Standards [(Exhibit 1); (PRP section 3100.04)] for a description of the types of attestation engagements included within the definition of an accounting and auditing practice for peer review purposes.

2 See footnote 1. The attestation engagement selected for review can be on either prospective financial statements or assertions.
Instructions to Firms Having an Engagement Review

a. A copy of the financial statements or information and the accountant's report, and the firm's documentation required by SSARS and the SSAEs. The client's name may be deleted and, if that is done, the engagement should be assigned a code number by the firm. The firm should retain a record of those code numbers to facilitate responding to any questions by the reviewer in the course of the review.

b. A completed "engagement questionnaire" (see Appendix B).

.07 The engagements selected should have periods ending during the agreed-upon review year.

.08 A firm may be dropped from the peer review program if it has failed to have a review by the date assigned. Therefore, if a firm fails to provide the information described in paragraph .06 in sufficient time to enable the reviewer to perform the engagement review prior to the required date, the reviewer should promptly advise the entity administering the review of this fact. Appropriate due process procedures will be followed in these circumstances.

.09 During the course of the review, the reviewer may have questions about the selected engagements. The firm is expected to respond promptly to questions raised during the review, whether those questions are raised orally or in writing.

.10 Upon receipt of the report and letter of comments, if any, on the review, the firm should prepare a letter of response to any deficiencies noted in the report and letter of comments. The report, letter of comments, if any, and the letter of response should be submitted to the administering entity within thirty days of the date the report was received from the reviewer or by the firm's peer review due date, whichever date is earlier. The reviewed firm should submit a draft of its letter of response to the reviewer for review and comment prior to submitting the response to the administering entity.

.11 The administering entity will not make the report on the firm's engagement review available to the public. The report should not be distributed by the firm to its personnel, clients or others until the firm has received a formal notification that it has been accepted by the administering entity.
DEFINITION OF AN ACCOUNTING AND AUDITING PRACTICE FOR PEER REVIEW PURPOSES

Paragraph 4 of the AICPA Standards for Performing and Reporting on Peer Reviews (PRP section 3100.04) states:

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)*, Statements on Standards for Attestation Engagements (SSAEs) and Government Auditing Standards (the Yellow Book), issued by the U.S. General Accounting Office (GAO).

* 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.
Instructions to Firms Having an Engagement Review

Appendix A

AICPA Peer Review Program

INFORMATION NEEDED TO ASSIGN AN ENGAGEMENT REVIEWER

1. Firm Name ____________________________________________________________

2. Did your firm perform any engagements covered by Statements on Auditing Standards (SASs) or examinations of prospective financial statements covered by Statements on Standards for Attestation Engagements (SSAEs) during the last twelve months? Yes □ No □ If yes, please indicate the date you issued your last report ___/___/___ and the period ending ___/___/___.

3. Does your firm plan to perform any engagements referred to in question 2 during the next twelve months? Yes □ No □

4. Whenever possible, we select a reviewer who practices in the state where your firm’s main office is located. However, we will not select a reviewer located in the immediate geographic area of that office or other geographic areas specified by you if, for example, you have a significant office or client in that area. We use the first three digits of the zip code to define a geographic area.

   a. Do you object to a reviewer being selected from the state where your main office is located? Yes □ No □ If yes, the reviewer will be selected from another state.

   b. If the answer to 4(a) is no, please indicate the first three digits of those zip codes within your state where you would not like a reviewer to be selected.3

   [ ] [ ] [ ] [ ] [ ] [ ]

5. Please provide the information on the following page concerning the number of accounting and review engagements and attestation engagements with periods ending during the last twelve months. This information should be classified into major industry categories and broken down by each partner of the firm who is responsible for the issuance of reports on accounting and review services and attest services.

6. Indicate the date that your firm would like the review to commence ___/___/___. This date should be sufficiently prior to the due date on page 1 to allow for completion of your peer review by that date. Completion includes the submission of all peer review documents to the entity administering the peer review.

---

3 To determine whether there are zip code areas that you would like excluded or included, you may wish to refer to your local phone book(s), client lists, or mailing lists, if any.
# Engagement Review Engagement Summary Form

(Engagements Performed by the Reviewed Firm)

For the Twelve Month Period Ended __/__/____

<table>
<thead>
<tr>
<th>Industry of the Client \ Level of Service Provided</th>
<th>Partner 1</th>
<th>Partner 2</th>
<th>Partner 3</th>
</tr>
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<tbody>
<tr>
<td>R \ C</td>
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</table>

Total number of C-8” Engagements performed

Signature ___________________________ Date ___________________________

Title ___________________________

---

4 Please refer to paragraph .02 on page 6102 for instructions in completing this form.
5 Please use the industry codes on the following page.
6 Please use the level of service codes on the following page.
7 Each monthly compilation engagement counts as one engagement.

* If your firm performs Compilations of financial statements where “Selected Information—Substantially All Disclosures Required are Not Included” (as discussed in SSARS) as its highest level of service, it is not eligible for a report review and must have an engagement review.

** Compilation engagements performed under Statement on Standards for Accounting and Review Services (SSARS) No. 8 where an engagement letter was issued instead of a report.
Level of Service Codes

Please use the following codes to reflect the level of service provided:

- **R** Review of historical or personal financial statements
- **C** Compilation of historical or personal financial statements with disclosures
- **CO** Compilation of historical or personal financial statements that omits substantially all disclosures
- **C-8** Compilation engagements performed under Statement on Standards for Accounting and Review Services (SSARS) No. 8 where an engagement letter was issued instead of a report
- **AT** Attestation services on financial statements or information (including compilation of prospective financial statements)

### Industry Codes

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<thead>
<tr>
<th>Code</th>
<th>Industry Description</th>
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<tr>
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<td>Agricultural, Livestock, Forestry &amp; Fishing</td>
</tr>
<tr>
<td>115</td>
<td>Airlines</td>
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<td>120</td>
<td>Auto Dealerships</td>
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<td>Computer Software Development and Sales</td>
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<td>Insurance Agents and Brokers</td>
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<td>255</td>
<td>Motor Carriers</td>
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<td>260</td>
<td>Not-for-Profit Organizations (including Voluntary Health and Welfare Organizations)</td>
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<td>265</td>
<td>Employee Benefit Plans (including ERISA)</td>
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<td>Personal Financial Statements</td>
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<td>Professional Services (Doctors, Lawyers, Architects, etc.)</td>
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<td>275</td>
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<td>Real Estate Brokerage</td>
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<td>285</td>
<td>Real Estate Development</td>
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<td>295</td>
<td>Real Estate Investment Trusts</td>
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<td>Reinsurance Companies</td>
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<td>Retail Trade</td>
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<td>308</td>
<td>Rural Utilities Service Borrowers</td>
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<td>Savings and Loan Associations</td>
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<td>Small Loan Companies</td>
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<td>School Districts</td>
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<td>State and Local Government</td>
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<td>Telephone Companies</td>
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<td>335</td>
<td>Utilities</td>
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<td>340</td>
<td>Wholesale Distributors</td>
</tr>
<tr>
<td>999</td>
<td>Other (Describe)</td>
</tr>
</tbody>
</table>

* If your firm performs Compilations of financial statements where “Selected Information—Substantially All Disclosures Required are Not Included” (as discussed in SSARS) as its highest level of service, it is not eligible for a report review and must have an engagement review.

AICPA Peer Review Program Manual


## Appendix B

**AICPA Peer Review Program**

**ENGAGEMENT QUESTIONNAIRE—ENGAGEMENT REVIEWS**

(To Be Completed by Reviewed Firm)

**FIRM NAME**

### General Data

<table>
<thead>
<tr>
<th>Engagement Name or Code No.</th>
<th>(If client names have been deleted from the financial statements, code these sheets as Nos. 1, 2, etc. and mark the financial statements correspondingly.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Period covered by financial statements</td>
<td>Total assets $</td>
</tr>
<tr>
<td>Date of report (engagement letter if no report was issued)</td>
<td>Long-term debt $</td>
</tr>
<tr>
<td>Date report/financial statements released</td>
<td>Equity $</td>
</tr>
<tr>
<td>Date that the fee for the prior engagement was paid</td>
<td>Net sales $</td>
</tr>
<tr>
<td></td>
<td>Net income $</td>
</tr>
</tbody>
</table>

**Major lines of business**

<table>
<thead>
<tr>
<th>Name</th>
<th>Hours on Engagement</th>
<th>Number of Years on Job</th>
</tr>
</thead>
<tbody>
<tr>
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</tbody>
</table>

- **Accountant with final responsibility for the engagement (for example, sole practitioner or engagement partner)**
- **Accountant in charge of field work (for example, manager, supervisor, or senior accountant)**
- **Other personnel (number only)**

### Nature of Entity:

- ( ) Independent entity
- ( ) Consolidated or combined group
- ( ) Subsidiary
- ( ) Other (explain) __________________________________________________________

### Nature of Service:

**Accounting and Review Services**—

- ( ) Review
- ( ) Compilation
  - with disclosures
  - omits disclosures

**Attest Services**—

- ( ) Financial forecasts and projections
- ( ) Agreed-upon procedures
- ( ) Other (describe) __________________________________________________________
Financial Statements Included:
( ) Balance sheet
( ) Income statement
( ) Statement of cash flows
( ) Statement of retained earnings
( ) Supplementary information (describe) ___________________________________________

( ) Other (explain) ______________________________________________________________

Accounting Basis for Financial Statements:
( ) Generally accepted accounting principles
( ) Cash basis
( ) Income tax basis
( ) Other (explain) ______________________________________________________________

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
<th>Ref.</th>
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</thead>
<tbody>
<tr>
<td>A.</td>
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<tr>
<td>1.</td>
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<td>2.</td>
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<tr>
<td>B.</td>
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<td>1.</td>
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<tr>
<td>2.</td>
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</tbody>
</table>

Specific Engagement Questions
(If this is a compilation engagement performed under Statement on Standards for Accounting and Review Services (SSARS) No. 8 where an engagement letter was issued instead of a report, question C should be completed, and the questions under G, H, and I should be completed in lieu of the questions under A and B, and D through F.)

A. Is the firm independent with respect to the entity? If "no," answer questions 1 and 2.
   1. Did the firm limit its service to the compilation of financial statements?
   2. Did the compilation report include a statement that the firm was not independent?

B. Did the entity have any balances, transactions, events, or agreements of the following types during the year covered by the financial statements? If the answer is "yes," please indicate in the third column entitled "Ref." where the matter is disclosed—using the codes "R" for the accountant's report, "F" for the financial statements, or "FN" for footnotes. If the answer is "yes" but the matter is not disclosed, please provide sufficient information in the "commentary" section of this questionnaire to enable the reviewer to consider whether the item has been appropriately accounted for and/or disclosed. (Do not answer this question for engagements to compile historical, personal, or prospective financial statements that omit substantially all disclosures or attest services marked "other" above.)

   1. Accounting changes. (AC Sec. A06) _____________________
   2. Business combinations. (AC Sec. B50) _____________________
   3. Related party transactions (including receivables and payables from officers, employees and affiliates). (AC Sec. R36) _____________________
<table>
<thead>
<tr>
<th></th>
<th>Description</th>
<th>Yes</th>
<th>No</th>
<th>Ref.</th>
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</thead>
<tbody>
<tr>
<td>5.</td>
<td>Pension plans. (AC Sec. P16)</td>
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<td></td>
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<tr>
<td>6.</td>
<td>Postemployment and postretirement plans other than pensions. (AC Secs. P32 and P40)</td>
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<tr>
<td>7.</td>
<td>Stock option or purchase plans. (AC Sec. C47)</td>
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<tr>
<td>8.</td>
<td>Contingencies. (AC Secs. C59.104-.114, C32.102-.105, and C59.118-.120)</td>
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<tr>
<td>9.</td>
<td>Commitments. (AC Secs. C59.104-.114, C32.102-.105, and C59.118-.120)</td>
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<tr>
<td>10.</td>
<td>Significant events between the balance sheet and report dates. (AC Sec. C59)</td>
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<tr>
<td>11.</td>
<td>Pledging of assets. (AC Sec. C59.120)</td>
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<tr>
<td>12.</td>
<td>Loan agreements or covenants imposing significant restrictions. (AC Secs. C32.105 and C59.120)</td>
<td></td>
<td></td>
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<tr>
<td>13.</td>
<td>Capital stock with significant rights or preferences. (AC Sec. C16)</td>
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<tr>
<td>15.</td>
<td>Discontinued operations. (AC Sec. I13)</td>
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<td>16.</td>
<td>Extraordinary items. (AC Sec. I17)</td>
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<tr>
<td>17.</td>
<td>Unusual or infrequent items. (AC Sec. I22)</td>
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<tr>
<td>18.</td>
<td>Restrictions on cash balances. (AC Secs. B05.107 and C59.120)</td>
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<tr>
<td>19.</td>
<td>Allowance for doubtful accounts. (AC Sec. V18)</td>
<td></td>
<td></td>
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<tr>
<td>21.</td>
<td>Investments in debt or equity securities. (AC Secs. I80 and I82)</td>
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<td></td>
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<tr>
<td>22.</td>
<td>Financial instruments with concentrations of credit risk. (AC Sec. F25.115)</td>
<td></td>
<td></td>
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<tr>
<td>23.</td>
<td>Financial instruments with off-balance sheet risk. (AC Sec. F25.112)</td>
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<td></td>
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<tr>
<td>24.</td>
<td>Other valuation accounts. (AC Sec. V18)</td>
<td></td>
<td></td>
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<tr>
<td>25.</td>
<td>Income tax expense, benefits, temporary differences, investment tax credits and other information on the effect of income taxes. (AC Sec. I27)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>26.</td>
<td>Notes receivable or payable or debt with no interest rate or an inappropriate stated interest rate. (AC Sec. I69)</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>27.</td>
<td>Economic dependence on customers. (AC Sec. R36.406)</td>
<td></td>
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<tr>
<td>28.</td>
<td>Troubled debt restructurings. (AC Sec. D22.121 and .122)</td>
<td></td>
<td></td>
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<tr>
<td>29.</td>
<td>Unusual or specialized accounting policies. (AC Sec. A10.105-.108)</td>
<td></td>
<td></td>
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<tr>
<td>30.</td>
<td>Research and development costs. (AC Sec. R50)</td>
<td></td>
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<tr>
<td>31.</td>
<td>Computer software costs. (AC Sec. Co2.110)</td>
<td></td>
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<tr>
<td>32.</td>
<td>Product financing arrangements. (AC Sec. D18.106 and .107)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
33. Foreign operations. (AC Sec. F65)  
34. Foreign currency transactions. (AC Sec. F60)  
35. Nonmonetary transactions. (AC Sec. N35)  
36. Going-concern considerations. (AU Sec. 341.10 and .11)

C. Were there any disagreements with the client on this engagement that, if not resolved to the firm’s satisfaction, would have caused the firm to modify its report (or engagement letter on a SSARS No. 8 engagement where no report was issued) or to withdraw from the engagement? If the answer is “yes,” provide sufficient information in the “commentary” section of this questionnaire to enable the reviewer to consider whether the item has been appropriately accounted for and/or disclosed.  

D. If this engagement was a review:  
   1. Did the accountant (firm) obtain a representation letter from members of management whom the accountant (firm) believes are responsible for and knowledgeable directly or through others in the organization, about the matters covered in the representation letter? (AR Sec. 100.28)  
   2. Did the accountant’s working papers describe the matters covered in the accountant’s inquiry and analytical procedures and unusual matters that the accountant considered during the performance of the review, including their disposition? (AR Sec. 100.31)

E. If this engagement was an agreed-upon procedures engagement:  
   1. Was the report dated the date of completion of the agreed-upon procedures? (AT Sec. 201A.34)  
   2. Did the responsible party provide the assertion in writing to you prior to the issuance of your report? (AT Sec. 201A.06b)  
   3. Did you and the specified parties agree upon the procedures performed? (AT Sec. 201A.06c)  
   4. Was the specific subject matter to which the procedures were applied subject to reasonably consistent estimation or measurement? (AT Sec. 201A.06e)  
   5. Did you and the specified parties agree upon the criteria used in the determination of findings? (AT Sec. 201A.06f)  
   6. Were the applied procedures expected to result in reasonably consistent findings using the criteria? (AT Sec. 201A.06g)  
   7. Did you communicate with and obtain affirmative acknowledgment on the sufficiency of the procedure from each of the specified parties? (Communication can be either directly or via appropriate alternative procedures such as the following: comparing the procedures applied to written requirements of the specified users, discussing the procedures applied with appropriate representatives of the specified parties involved, or reviewing relevant contracts with or correspondence from the specified parties.) (AT Sec. 201A.07)
8. Did you establish an understanding with the client regarding the terms of the engagement, preferably in an engagement letter? (AT Sec. 201A.10)  

9. If the work of a specialist was used, did you and the specified parties explicitly agree to the involvement of the specialist in assisting you in the performance of the engagement? (AT Sec. 201A.20)  

10. Were the agreed-upon procedures performed entirely by you except for those agreed by you and the specified parties that were performed by a specialist? (AT Sec. 201A.21)  

11. Were you requested to add additional parties, and if so, did you obtain affirmative acknowledgment in writing from the additional parties agreeing to the procedures performed and of their taking responsibility for the sufficiency of the procedures? (AT Sec. 201A.36)  

12. If you were requested to change from another form of engagement to an engagement to apply agreed-upon procedures, did you consider the following before agreeing to the change:  
   a. The possibility that certain procedures performed as part of another type of engagement were not appropriate for inclusion in an agreed-upon procedures? (AT Sec. 201A.42a)  
   b. The reason given for the request, particularly the implications of a restriction on the scope of the original engagement or the matters reported upon? (AT Sec. 201A.42b)  
   c. The additional effort required to complete the original engagement? (AT Sec. 201A.42c)  
   d. If applicable, the reasons for changing from a general-distribution report to a restricted-use report? (AT Sec. 201A.42d)  

F. If this engagement was an other attestation engagement:  

1. Is the report dated the date of completion of the other attestation engagement procedures? (AT Secs. 400.11, 600.60, and AR Sec. 100.33)  

2. If the engagement was to determine the effectiveness of internal control over financial reporting were the following conditions met for performing the engagement on management’s written assertions? (AT Sec. 501.04)  
   a. Did management assert that they evaluated and accepted responsibility for the effectiveness of the entity’s internal control?  
   b. Was there sufficient evidence to support management’s evaluation?  
   c. Were the written assertions about the effectiveness of the entity’s internal control made in a representation letter for restricted use or in a separate report if your report was for general use? (AT Sec. 501.05)


**d.** Did you obtain management’s written representations about the effectiveness of the entity’s internal control as of the specified date of the assertions?

<table>
<thead>
<tr>
<th>Yes</th>
<th>No</th>
<th>Ref.</th>
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3. If the engagement was about the entity’s compliance with specified requirements or the effectiveness of internal control over compliance, were the following conditions met for performing the engagement on management’s written assertions? (AT Sec. 201A.06g)

<p>| | | |</p>
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<table>
<thead>
<tr>
<th>a.</th>
<th>Did management assert that they evaluated and accepted responsibility for the compliance with specified requirements and the effectiveness of the entity’s internal control over compliance? (AT Sec. 601A.09)</th>
<th></th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>b.</th>
<th>Did management make an assertion about the entity’s compliance with specified requirements? (AT Sec. 601.10b)</th>
<th></th>
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<table>
<thead>
<tr>
<th>c.</th>
<th>Was there sufficient evidence to support management’s evaluation? (AT Sec. 601.10c)</th>
<th></th>
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</table>

<table>
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<tr>
<th>d.</th>
<th>Were the written assertions about compliance with specified requirements or the effectiveness of the entity’s internal control over compliance made in a representation report for restricted use or in a separate report for general use? (AT Sec. 601.11a)</th>
<th></th>
</tr>
</thead>
</table>

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<tr>
<th>e.</th>
<th>Were the assertions so specific that the same or similar measurement and disclosure criteria would lead to similar conclusions? (AT Sec. 601.12)</th>
<th></th>
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</table>

4. If the engagement was on pro forma financial information did you obtain written representations from management concerning their—

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<table>
<thead>
<tr>
<th>a.</th>
<th>Responsibility for the assumptions used in determining the pro forma adjustments? (AT Sec. 401.10h)</th>
<th></th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>b.</th>
<th>Belief that the assumptions provide a reasonable basis for presenting all of the significant effects directly attributable to the transaction (or event), that the related pro forma adjustments give appropriate effect to those assumptions, and that the pro forma column reflects the proper application of those adjustments to the historical financial statements? (AT Sec. 401.10h)</th>
<th></th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>c.</th>
<th>Belief that the significant effects directly attributable to the transaction (or event) are appropriately disclosed in the pro forma financial statements? (AT Sec. 401.10h)</th>
<th></th>
</tr>
</thead>
</table>

G. If the engagement was performed under Statement on Standards for Accounting and Review Services (SSARS) No. 8 where no report was issued, did the documentation of the understanding include the following descriptions or statements as required by SSARS No. 8, paragraph .21:

<p>| | | |</p>
<table>
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</table>

1. The nature and limitations of the services to be performed?

<p>| | | |</p>
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2. A compilation is limited to presenting in the form of financial statements information that is the representation of management?
3. The financial statements will not be audited or reviewed?  

4. No opinion or any other form of assurance on the financial statements will be provided?  

5. Management has knowledge about the nature of the procedures applied and the basis of accounting and assumptions used in the preparation of the financial statements?  

6. Acknowledgement of management's representation and agreement that the financial statements are not to be used by third parties?  

7. The engagement cannot be relied upon to disclose errors, fraud, or illegal acts?  

H. Did the documentation of the understanding of the engagement performed under Statement on Standards for Accounting and Review Services (SSARS) No. 8 where no report was issued address the following additional matters, if applicable, as required by SSARS No. 8, paragraph .21:

1. Material departures from GAAP or OCBOA may exist and the effects of those departures, if any, on the financial statements may not be disclosed?  

2. Substantially all disclosures (and statement of cash flows, if applicable) required by GAAP or OCBOA may be omitted?  

3. Lack of independence?  

4. A reference to supplementary information?  

I. Did the accountant include a reference on each page of the financial statements restricting their use such as: “Restricted for Management’s Use Only,” or “Solely for the information and use by the management of (name of entity) and not intended to be and should not be used by any other party as required by Statement on Standards for Accounting and Review Services (SSARS) No. 8, paragraph .22?  

Engagement Partner’s Signature ___________________________ Date ____________

**Explanation of References:**

- **AC** Reference to section number in *FASB Accounting Standards Current Text*
- **AU** Reference to section number for Statements on Auditing Standards in *AICPA Professional Standards* (vol. 1)
- **AR** Reference to section number for Statements on Standards for Accounting and Review Services in *AICPA Professional Standards* (vol. 2)
- **AT** Reference to section number for Statements on Standards for Attestation Engagements in *AICPA Professional Standards* (vol. 1)
COMMENTARY ON ENGAGEMENT QUESTIONS

<table>
<thead>
<tr>
<th>Question Number</th>
<th>Commentary</th>
</tr>
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Note: Attach additional sheets if required.

[The next page is 6201.]
### PRP Section 6200

**Instructions to Reviewers Performing Engagement Reviews**

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<th>Paragraph</th>
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<td></td>
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AICPA Peer Review Program Manual

PRP §6200
Introduction

.01 These materials have been developed based on the AICPA Standards for Performing and Reporting on Peer Reviews (the Standards) and materials contained in the AICPA Peer Review Program Manual related to engagement reviews. See Interpretation No. 7 to the Standards, regarding compilation engagements performed under Statement on Standards for Accounting and Review Services (SSARS) No. 8, where no compilation report is issued.

.02 A firm that does not perform engagements under Statements on Auditing Standards (SASs), or examinations of prospective financial statements under Statements on Standards for Attestation Engagements (SSAEs) can have an engagement review of the reports and the related financial statements or information. (However, such firms may voluntarily elect to have a system review. If a firm elects to have a system review, refer to PRP section 4000, “System Reviews,” and to PRP section 3300.25 for an illustration of an unmodified report on a system review of a firm that performs only accounting and review services, and certain engagements under the Statements on Standards for Attestation Engagements (SSAEs), (and no engagements under the Statements on Auditing Standards (SASs), Government Auditing Standards, or examinations of prospective financial statements under the SSAEs.) Compliance with the positive enforcement program of a state board of accountancy does not constitute compliance with this requirement.

.03 Information concerning the reviewed firm or any of its clients or personnel is confidential and cannot be disclosed to anyone not involved in carrying out the peer review or administering the peer review program.

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

a. The financial statements or information and the related accountant’s report on the accounting and review engagements and attestation engagements submitted for review, conform in all material respects with the requirements of professional standards; and

b. The reviewed firm’s documentation conforms with the requirements of SSARS and the SSAEs applicable to those engagements in all material respects.

.05 An engagement review consists of the following:

a. Reading the accountant’s report and the related financial statements or information submitted by the firm, together with certain background information and representations about the engagements provided by the reviewed firm.

b. Reviewing the documentation required by SSARS and the SSAEs submitted by the reviewed firm.

c. Reviewing the firm’s prior peer review report, and if applicable, letter of comments and letter of response.

.06 An engagement review does not include a review of working papers prepared on the selected engagements (other than the documentation referred to in PRP section 6200.04b), tests of the firm’s administrative or personnel files, interviews of selected firm personnel, or other procedures performed in a system review. See Interpretation No. 7 to the Standards, regarding compilation engagements performed under Statement on Standards for Accounting and Review Services (SSARS) No. 8, where no compilation report is issued.

Engagement Selection Guidelines

.07 Prior to the review, the administering entity or the assigned reviewer will ask the reviewed firm to provide summarized client information showing the number of its accounting and review engagements and

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attestation engagements, classified into major industry categories and broken down by each partner of the firm responsible for the issuance of reports on accounting and review services and attest services. The form that will be used for this purpose is reproduced in Exhibit 1 to these materials.

.08 Either the reviewer or the administering entity should discuss with the reviewed firm the twelve month period to be covered by the review. That period should ordinarily end three to five months prior to the performance of the review and all reports selected for review should ordinarily have periods ended during the period.

.09 Based on the summarized client information, the administering entity or the reviewer will select the number and types of engagements to be reviewed.

.10 Ordinarily, the number of engagements selected should adhere to the following guidelines:

a. Select one engagement from each area of service performed by the firm:
   • Review of historical financial statements
   • Compilation of historical financial statements with disclosures
   • Compilation of historical financial statements that omits substantially all disclosures
   • Attestation

b. Select one engagement from each partner of the firm responsible for the issuance of reports listed in a above.

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

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

.11 Exhibit 2 shows how the guidelines in this section can be applied to five sample firms.

.12 The types of engagements selected should also attempt to include clients operating in different industries (especially high risk industries).

.13 The AICPA and many state societies administering engagement reviews advise reviewers they appoint of the number of engagements to be selected. The reviewer should consult with the entity that made the appointment:

a. If the reviewer finds that the number of engagements he or she has been instructed to select does not conform with the stated guidelines.

b. If the reviewer has reason to believe that he or she should select more than the number of engagements specified by the administering entity.

.14 Within 30 days after the reviewer or the administering entity provides the firm with a description of the number and types of engagements to be reviewed, the firm should select the engagements in accordance with those specifications and submit the following information to the reviewer or the administering entity (as applicable) for each engagement:

a. A copy of the most recent financial statements or information and the accountant’s report, and the firm’s documentation required by SSARS and SSAEs. The client’s identity may be masked and assigned a code number. The reviewed firm should keep a record of those code numbers to be able to respond to any questions by the reviewer.

b. A completed Engagement Questionnaire.
.15 A firm may be dropped from the peer review program if it has failed to have a review by the date assigned. Therefore, if a firm fails to provide the information described in paragraph .14 in sufficient time to enable the reviewer to complete the engagement review prior to the required due date, the reviewer should promptly advise the entity administering the review of this fact. Appropriate due process procedures will be followed in these circumstances.

Performing the Review

.16 Engagement reviews must be documented using the programs and checklists issued by the AICPA Peer Review Board. These materials include a Reviewer's Checklist (Appendix A) which includes an overview of the way in which an engagement review is to be conducted.

.17 Reviewers should review the engagements submitted along with the background information provided by the firm. Questions and possible deficiencies noted during the review should be documented on Matter for Further Consideration (MFC) forms (PRP section 6300) and discussed with the reviewed firm. The reviewer may obtain the firm's response to the matters noted on the MFC forms by telephone or in writing.

.18 After reviewing the selected engagements and discussing your findings with the reviewed firm, the Engagement Statistics Data Sheet (PRP section 6400) should be completed. The information included on this sheet should be consistent with the information included in the report issued on the review. Exhibit 3 includes some further guidance on completing this sheet.

.19 Guidance for Writing Peer Review Reports (PRP section 3300) and Appendixes G, H, and I in the AICPA Standards for Performing and Reporting on Peer Reviews (PRP section 3100) provide guidance on the considerations governing the type of report to issue and includes illustrations of the standard form for an unmodified report and other types of reports. Appendix J includes guidelines for and an illustration of a letter of comments.

.20 The presence of one engagement that does not comply with professional standards in all material respects on an engagement review automatically results in a modified report, because the finding that one of the engagements submitted does not comply with professional standards in all material respects must be reported as an exception to the reviewer's statement of limited assurance on the engagements submitted for review.

.21 The presence of all engagements reviewed being substandard on an engagement review automatically results in an adverse report. If more than one but not all of the engagements reviewed are substandard on an engagement review, then the reviewer should consider the nature of the deficiencies found when determining whether the report should be modified or adverse.

After the Review

.22 Within thirty days of the completion date or by the firm's peer review due date, whichever date is earlier, on an engagement review, the reviewer should furnish the reviewed firm with a written report and letter of comments, if applicable, and remind the reviewed firm that:

a. The report and letter of comments should be sent, along with an appropriate response, by the reviewed firm to the administering entity within thirty days of the date it receives the report or by the firm's peer review due date, whichever date is earlier.

b. The letter of response should be addressed to the peer review committee of the administering entity and should describe the remedial, corrective actions that the firm has taken or will take to prevent a recurrence of each matter discussed in the report and letter of comments.
c. The firm should submit a draft of its letter of response to the reviewer for review and comment prior to submitting the response to the administering entity.

d. The reviewed firm should not publicize the results of the review or distribute copies of the report to its personnel, clients, or others until it has been advised that the report has been accepted by the administering entity.

.23 Within thirty days of the completion date or by the firm’s peer review due date, whichever date is earlier on an engagement review, the reviewer should also submit a copy of the documents listed in Exhibit 4 to the state CPA society administering the review. Copies of the financial statements that were reviewed should not be included in the working papers; they should either be destroyed or returned to the reviewed firm.
## Exhibit 1

**ENGAGEMENT REVIEW ENGAGEMENT SUMMARY FORM**¹

(Engagements Selected for Review by the Reviewer)

For the Twelve Month Period Ended __/__/___

<table>
<thead>
<tr>
<th>Industry of the Client</th>
<th>Level of Service Provided</th>
<th>Partner 1</th>
<th>Partner 2</th>
<th>Partner 3</th>
</tr>
</thead>
<tbody>
<tr>
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<td>AT</td>
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</tr>
</tbody>
</table>

Total number of C-8" engagements performed

Signature _____________________________ Date _____________________________

Title ________________________________

¹ Please refer to paragraph .07 on page 6202 for instructions in completing this form.

² If the reviewed firm performs Compilations of financial statements where "Selected Information—Substantially All Disclosures Required are Not Included" (as discussed in SSARS) as its highest level of service, the firm is not eligible for a report review and must have an engagement review.

²  Compilation engagements performed under Statement on Standards for Accounting and Review Services (SSARS) No. 8 where an engagement letter was issued instead of a report.
Exhibit 1
(Continued)

Level of Service Codes

Please use the following codes to reflect the level of service provided:

- **R** Review of historical or personal financial statements
- **C** Compilation of historical or personal financial statements with disclosures
- **CO** Compilation of historical or personal financial statements that omits substantially all disclosures
- **C-8** Compilation engagements performed under Statement on Standards for Accounting and Review Services (SSARS) No. 8 where an engagement letter was issued instead of a report.
- **AT** Attestation services on financial statements or information (including compilation of prospective financial statements)

### Industry Codes

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<thead>
<tr>
<th>Code</th>
<th>Description</th>
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</thead>
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<td>Agricultural, Livestock, Forestry &amp; Fishing</td>
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<tr>
<td>115</td>
<td>Airlines</td>
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<td>120</td>
<td>Auto Dealerships</td>
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<td>Common Interest Realty Associations</td>
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<td>160</td>
<td>Computer Software Development and Sales</td>
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<tr>
<td>165</td>
<td>Construction Contractors</td>
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<td>Continuing Care Retirement Communities</td>
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<tr>
<td>175</td>
<td>Credit Unions</td>
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<tr>
<td>180</td>
<td>Extractive Industries—Oil and Gas</td>
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<tr>
<td>185</td>
<td>Extractive Industries—Mining</td>
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<tr>
<td>186</td>
<td>Federal Financial Assistance Programs</td>
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<td>Finance Companies</td>
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<td>Franchisors</td>
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<td>Fire and Casualty Insurance Companies</td>
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<td>HUD</td>
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<td>Insurance Agents and Brokers</td>
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<td>Investment Companies and Mutual Funds</td>
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<td>Leasing Companies</td>
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<td>Life Insurance Companies</td>
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<td>Voluntary Health and Welfare Organizations</td>
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<td>Employee Benefit Plans (including ERISA)</td>
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<td>Personal Financial Statements</td>
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<td>Professional Services (Doctors, Lawyers,</td>
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<td>Architects, etc.)</td>
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<td>999</td>
<td>Other (Describe)</td>
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</table>

* If the reviewed firm performs Compilations of financial statements where "Selected Information—Substantially All Disclosures Required are Not Included" (as discussed in SSARS) as its highest level of service, the firm is not eligible for a report review and must have an engagement review.
APPLIEDS OF THE ENGAGEMENT REVIEW ENGAGEMENT SELECTION GUIDELINES

Guidelines

The AICPA Standards for Performing and Reporting on Peer Reviews (the Standards) require a review to:

a. Include one engagement from each area of service performed by the firm:
   - Review of historical financial statements
   - Compilation of historical financial statements with disclosures
   - Compilation of historical financial statements that omits substantially all disclosures
   - Attestation

b. Include one engagement from each partner of the firm responsible for the issuance of reports listed in a above.

c. Ordinarily, include at least two engagements.

The above criteria are not mutually exclusive. Therefore, a particular engagement selected for review can satisfy two or three of the criteria simultaneously.

Example 1

FACTS: A sole practitioner performs three reviews of historical financial statements, two full disclosure compilations of historical financial statements and forty compilations of historical financial statements that omit substantially all disclosures.

QUESTION: How many and what types of engagements should be selected for review?

ANSWER: Three engagements should be selected for review: one review engagement of historical financial statements; one full disclosure compilation engagement of historical financial statements; and one compilation engagement of historical financial statements that omits substantially all disclosures. The sole practitioner performs engagements in three of the four areas of service listed in criterion a above: reviews of historical financial statements, full disclosure compilations of historical financial statements, compilations of historical financial statements that omit substantially all disclosures. Therefore, three engagements should be selected for review, one from each area of service performed by the sole practitioner.

Example 2

FACTS: A sole practitioner performs five reviews of historical financial statements, six full disclosure compilations of historical financial statements, three full disclosure compilations of prospective financial statements, and two agreed-upon procedures under the attestation standards of written assertions.

QUESTION: How many and what types of engagements should be selected for the review?

ANSWER: Three engagements should be selected for review: one review engagement of historical financial statements, one full disclosure compilation engagement of historical financial statements, and one attestation engagement. The attestation engagement selected for review can be either a compilation of prospective financial statements or an agreed-upon procedures under the attestation standards. The sole practitioner
performs engagements in three of the four areas of service listed in criterion a above: reviews of historical financial statements, full disclosure compilations of historical financial statements, and attestations. Criterion a above does not specify what kind of attestation engagement to select for review, only that at least one attestation engagement be selected. Therefore, the kind of attestation engagement selected for review is arbitrary and can be either of prospective financial statements or written assertions.

**Example 3**

**FACTS:** A sole practitioner performs for one client twelve monthly computer generated compilations of historical financial statements that omit substantially all disclosures.

**QUESTION:** How many and what types of engagements should be selected for the review?

**ANSWER:** The criteria for selection of engagements require that, ordinarily, a minimum of two engagements be selected for review. However, if the reviewer is satisfied that one engagement is representative of the firm’s complete practice, the reviewer may conclude it is unnecessary to review more than one engagement.

**Example 4**

**FACTS:** The firm has three partners and performs three reviews of historical financial statements, three full disclosure compilations of historical financial statements, and forty compilations of historical financial statements that omit substantially all disclosures.

- Partner No. 1 is responsible for two reviews of historical financial statements, one full disclosure compilation of historical financial statements, and twenty compilations of historical financial statements that omit substantially all disclosures.
- Partner No. 2 is responsible for one full disclosure compilation of historical financial statements and thirteen compilations of historical financial statements that omit substantially all disclosures.
- Partner No. 3 is responsible for one review of historical financial statements, one full disclosure of historical financial statements compilation and seven compilations of historical financial statements that omit substantially all disclosures.

**QUESTION:** How many and what types of engagements should be selected for review?

**ANSWER:** Three engagements should be selected for review: one review engagement of historical financial statements, one full disclosure compilation engagement of historical financial statements, and one compilation engagement of historical financial statements that omit substantially all disclosures. The firm performs engagements in three of the four areas of service listed in criterion a above: reviews of historical financial statements, full disclosure compilations of historical financial statements, compilations of historical financial statements that omit substantially all disclosures. The type of engagement selected for review from each partner is arbitrary, as long as at least one engagement from each of the three areas of service provided by the firm is selected and all three partners are covered in that selection.

**Example 5**

**FACTS:** The firm has three partners and performs only thirty compilations of historical financial statements that omit substantially all disclosures.

- Partner No. 1 is responsible for eight compilations of historical financial statements that omit substantially all disclosures.
- Partner No. 2 is responsible for fifteen compilations of historical financial statements that omit substantially all disclosures.
• Partner No. 3 is responsible for seven compilations of historical financial statements that omit substantially all disclosures.

**QUESTION:** How many and what types of engagements should be selected for review?

**ANSWER:** Three compilation engagements of historical financial statements that omit substantially all disclosures should be selected for review. The firm performs engagements in only one of the four areas of service listed in criterion *a* above: compilations of historical financial statements that omit substantially all disclosures. However, criteria *b* above states that one engagement should be selected for each partner of the firm responsible for the issuance of reports on accounting and review, and attest services. Therefore, three engagements should be selected, one compilation engagement of historical financial statements that omit substantially all disclosures for each partner of the firm.

**Example 6**

**FACTS:** A firm has two partners and performs two reviews of historical financial statements, eight full disclosure compilations of historical financial statements, 86 compilations of historical financial statements that omit substantially all disclosures, one full disclosure compilation engagement of prospective financial statements, and one agreed-upon procedures under the attestation standards of written assertions. The firm also compiled the client’s historical financial statements for both of the attestation engagements.

• Partner No. 1 is responsible for all accounting and review services, and the one compiled prospective financial statements.

• Partner No. 2 is responsible for the one agreed-upon procedures engagement.

**QUESTION:** How many and what types of engagements should be selected for the review?

**ANSWER:** Four engagements should be selected for the review: one review engagement of historical financial statements, one full disclosure compilation engagement of historical financial statements, one compilation engagement of historical financial statements that omit substantially all disclosures, and one attestation engagement. The firm performs engagements in all four of the areas of service listed in criterion *a* above: reviews of historical financial statements, full disclosure compilations of historical financial statements, compilations of historical financial statements that omit substantially all disclosures, and attestations. Because criterion *a* above does not specify what kind of attestation engagement to select for review, typically, either the compilation engagement of prospective financial statements or the agreed-upon procedures engagement of written assertions can be used to satisfy the requirement. However, criteria *b* above states that one engagement should be selected for review from each partner of the firm responsible for the issuance of reports on accounting and review, and attest services. Because partner no. 2 only performs attest services, the attestation engagement selected for review should be from that partner. Therefore, the attestation engagement selected for review should be the agreed-upon procedures engagement of written assertions.
Exhibit 3

COMPLETING THE ENGAGEMENT REVIEW ENGAGEMENT STATISTICS DATA SHEET

After reviewing the selected engagements and discussing your findings with the reviewed firm, the Engagement Statistics Data Sheet (PRP section 6400) should be completed. That form should be completed based on the following guidance.

Section I

Section I asks for information concerning the number of engagements reviewed and the number of engagements deemed substandard. The term “substandard engagements” cannot be found in any formal accounting, auditing, or practice-monitoring program literature. However, it is used by most parties involved in the administration of the practice-monitoring programs to refer generically to situations in which a firm has not complied in all material respects with professional standards.

An engagement is deemed to be “substandard” when—

- One or more procedures considered necessary at the time of an engagement were omitted.
- Subsequent to the date of an issued report (or an engagement letter on a SSARS No. 8 engagement), the firm becomes aware that facts may have existed at that date which might have affected its report (or an engagement letter on a SSARS No. 8 engagement) had it then been aware of such facts. This includes reporting, disclosure, and measurement errors.

Reference should be made to AR sections 100.42, 9100.13 and .14 of AICPA Professional Standards, vol. 2, when “substandard engagements” are encountered on a review. These sections also suggest that the guidance in the following sections be considered in these circumstances:

- AU section 390 of AICPA Professional Standards, vol. 1—Consideration of Omitted Procedures After the Report Date
- AU section 561 of AICPA Professional Standards, vol. 1—Subsequent Discovery of Facts Existing at the Date of the Auditor’s Report

An engagement is not generally called substandard when—

- Minor disclosures are omitted and the omissions do not cause the financial statements to be misleading.
- An error has been made in accounting for a transaction and the error is immaterial.
- The accountants’ report does not cover all periods covered by the financial statements, but the periods covered are identified in the body of the financial statements.
- The accountants’ report does not cover the supplemental information that was issued along with the financial statements.
- The titles on the financial statements are not consistent with the report issued.

Section II

Section II asks the reviewer to describe the reasons why he/she concluded that one or more engagements were substandard. If the reviewer indicates in Section I that any engagements were substandard, then Section II should describe why each engagement was deemed substandard.

To assist the reviewer in noting why an engagement is substandard, three Reason Codes have been provided:

- GAP should be used to indicate that the financial statements and/or footnotes are not in accordance with generally accepted accounting principles.
Exhibit 3
(Continued)

- SAR should be used to indicate that the report and/or the documentation requirements were not in accordance with the Statements on Standards for Accounting and Review Services.

- ATT should be used to indicate that the report and/or the documentation requirements were not in accordance with the Statements on Standards for Attestation Engagements.

After entering the Reason Code, the reviewer should provide a brief description of the deficiency noted.

Some examples of comments that might be written when a GAP Reason Code is noted are:

- No footnotes on the review engagements.
- Inventory and accounts receivable balances on monthly historical financial statements not adjusted since last annual historical financial statements.
- One or more significant footnotes omitted. Also, indicate the nature of the footnote (i.e., leases, related parties, pensions, accruals, etc.)
- A statement of changes in financial position has been issued rather than a statement of cash flows.

Some examples of comments that might be written when a SAR Reason Code is noted are:

- No compilation report issued.
- The compilation report on historical financial statements does not indicate that substantially all disclosures have been omitted.
- The compilation report on historical financial statements does not indicate that a statement of cash flows has been omitted.
- A standard report on historical financial statements prepared under generally accepted accounting principles was issued rather than a report indicating that the financial statements have been prepared under an other comprehensive basis of accounting.
- A management representation letter was not obtained on a review engagement.
- The working papers on a review engagement failed to document certain matters covered in the accountant’s inquiry and analytical procedures.
- No engagement letter documenting the understanding between accountant and management regarding the services to be performed and the limitations on the use of the financial statements, when the compiled financial statements are not expected to be used by a third party and a compilation report was not issued. (SSARS No. 8 engagement.)
- The engagement letter, which documents the understanding between accountant and management regarding services to be performed and the limitations on the use of the financial statements, when the compiled financial statements are not expected to be used by a third party and a compilation report was not issued, does not include any of the required seven descriptions or statements, or the four additional matters, when applicable, except for a reference to supplementary information. (SSARS No. 8 engagement.)

Some examples of comments that might be written when an ATT Reason Code is noted are:

- The agreed-upon procedures report does not disclose the criteria against which the assertion was measured.
- The compilation report on prospective financial statements does not indicate that substantially all disclosures have been omitted.
Exhibit 3
(Continued)

- The working papers did not indicate that the work was adequately planned and supervised.
- Evidential matter was not obtained to provide a reasonable basis for the finding(s) expressed in the related accountant’s report on an agreed-upon procedures engagement.
- Evidential matter was not obtained to provide a reasonable basis for the conclusions expressed in the accountant’s report on an other attestation engagement.

Section III

Section III asks the reviewer to indicate the actions that the reviewed firm has taken or plans to take with respect to each substandard engagement. If the reviewer indicates in Sections I and II that three engagements were substandard, then Section III should include a description of the actions taken or to be taken on each of three substandard engagements.

To assist the reviewer in noting the actions taken or to be taken by the reviewed firm and to reduce the amount of writing, six Action Codes are set forth on the data sheet. A comment field has been provided in the event that the reviewer wishes to provide additional information or to describe an Action which is not covered by the six Action Codes provided. If a reviewer can use one of the six Action Codes provided and has no other comments, the Comments section does not have to be completed.

Under the professional standards cited under the explanation of Section I, the major factor to be considered when evaluating what actions should be taken on substandard engagements is whether or not there are persons currently relying or likely to rely on the report and financial statements that have been issued. When persons are currently relying or likely to rely on report and financial statements that have been issued, professional standards suggest that—

- The firm promptly undertake to apply the omitted procedure or alternative procedures that would provide a satisfactory basis for its report.
- The firm should issue a revised report and financial statements as soon as practicable; ordinarily, the reason for the revision should be described in a note to the financial statements and referred to in the report.

If the issuance of financial statements of the subsequent period is imminent, so that disclosure of the information is not delayed, appropriate disclosure of the revision can be made in such statements instead of reissuing the earlier statements. Before any action is taken on the part of the reviewed firm with respect to substandard engagements, the professional standards suggest that an attorney be consulted.

Section IV

Section IV asks for a list of any engagement(s) that the reviewed firm asked the reviewer not to review and the reasons why the reviewed firm made such a request. On an engagement review, such requests will be rare.
Exhibit 4

DOCUMENTS TO BE SUBMITTED TO THE ADMINISTERING ENTITY
BY INDIVIDUALS PERFORMING ENGAGEMENT REVIEWS

The following is a list of the documents that should be submitted by the reviewer to the administering entity:

1. Report and Letter of Comments (if applicable)
2. Engagement Review Engagement Summary Form
3. Engagement Questionnaire—Engagement Reviews (CART reviews only)
4. Reviewer’s Checklist—Engagement Reviews
5. Engagement Review Completion Form
6. Reviewer’s Engagement Checklists (CART reviews only)
7. Matter for Further Consideration Forms—Engagement Reviews
8. Engagement Statistics Data Sheet

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Appendix A

REVIEWER’S CHECKLIST—ENGAGEMENT REVIEWS

This checklist must be completed on all engagement reviews of firms enrolled in the AICPA Peer Review Program. Engagement reviews are administered by state CPA societies participating in the program. Those entities are referred to collectively as the administering entity.

Questions regarding the use of this checklist or any other materials or about the review in general should be directed to the staff of the administering entity or to such other individuals the administering entity may identify for that purpose.

1. Obtain from the entity administering the review the background and scheduling information on the firm, and review and compare such information with that furnished by the firm. (See step 2.)

2. Review the background information furnished by the firm. If the information provided to the administering entity by the firm differs significantly from the information provided by the firm to you, please reconcile and notify the administering entity, if necessary.

3. Inquire whether the partners of the firm and the firm itself have licenses to practice public accounting in the state(s) in which the firm practices as required by the applicable state board(s) of accountancy. If any exception was noted, add an addendum to the Reviewer’s Checklist explaining the effect on the firm’s accounting practice and on the performance of the review.

4. If the firm was previously reviewed, read the report and letter of comments, if any, on the prior review and the firm’s response thereto and make note of deficiencies discussed in the report, all of which should be emphasized in the current review:

5. Determine that the reviewed firm has submitted engagements for review in accordance with instructions previously provided to it by the administering entity or by you as the reviewer and indicate the number of engagements selected.

6. The scope of the review should not be increased beyond the minimum required under the Standards since the review will be engagement oriented, which makes it unnecessary to determine if there are any pervasive engagement deficiencies indicative of a systematic or compliance related problem discovered during a system review.

7. Perform the procedures outlined in the “Reviewer’s Engagement Checklist—Engagement Reviews.” Make any oral inquiries deemed necessary to consider whether the financial statements or information and the accountant’s reports submitted by the reviewed firm appear to conform with the requirements of professional standards. An engagement review includes a review of the working papers only related to the documentation required
by SSARS and SSAEs submitted by the reviewed firm. Requests for other working papers should not be necessary. (See the Standards for guidance on the objective of and basic requirements for an engagement review.)

8. During the review discuss and make note of—
   (i) the number of partners. 
   (ii) the number of partners with responsibility for issuing reports on a complete set of financial statements.

9. Prepare a "Matter for Further Consideration" form (MFC) to document all possible deficiencies and matters that require additional information or explanation of facts from the reviewed firm.

10. Obtain the firm’s response to all significant deficiencies by telephone or in writing on an MFC form.

11. Consult with the AICPA staff when the firm has sold a portion of its non-attest practice to a non-CPA owned entity and has entered into service arrangements with that non-CPA owned entity to provide employees, office space, equipment, etc. for which the firm remits a percentage of its revenues or profits.

12. Consult with the administering entity (a) whenever the reviewer and the reviewed firm have a disagreement on a significant matter, including the type of report to be issued, whether action should be taken to prevent future reliance on a previously issued report, and whether a report issued by the firm was not in conformity with professional standards, and/or documentation was not in conformity with SSARS or the SSAEs, and (b) whenever the firm does not respond promptly to oral or written inquiries, which may constitute a failure to cooperate.

13. At the conclusion of the review: review all matters, including the firm’s response, on MFC forms, and document your reasons for including or not including such matters in the report on the review.

14. If the report to be issued is other than unmodified, communicate that fact to the appropriate individual in the reviewed firm. Inform the firm to expect to receive a follow-up action from the report acceptance body when a modified or adverse report is likely to be issued. You should also inform the firm, that in certain situations, the report acceptance body may require a follow-up action even though an unmodified report may be issued. As previously noted, consult with the administering entity if there is an unresolved disagreement with the firm as to the report to be issued or the findings on the review.

15. Inform the firm of the AICPA Peer Review Board’s resolution that a firm’s failure to cooperate with the state CPA society administering its review would include failing to receive an unmodified peer review report 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 comments with significant deficiencies are considered equivalent to failing to receive an unmodified report for the purposes of this resolution.)

16. If a letter of comments was issued, did any matters in the letter cause you to consider issuing a modified or adverse report but not result in such a report being issued? Yes ___ No ___. If “yes,” describe such matter fully, indicating the basis for the conclusion.

17. Describe below the nature and extent of each matter discussed with the partner(s) of the firm that was not deemed of sufficient significance to include in the letter of comments.

18. Prepare a report and letter of comments, if applicable, on the review following the guidance in the Standards, and—

   a. Submit the original of the report and letter of comments to the reviewed firm within thirty days of the completion date or by the firm’s peer review due date, whichever date is earlier. Ordinarily, those engagement review procedures should be completed within thirty days of the date the reviewer receives the materials to be reviewed.

   b. Submit a copy of the report, letter of comments, and working papers listed in Exhibit 4 (PRP section 6200.27) to the administering entity by an insured carrier. For CART reviews, all working papers are to be submitted to the administering entity.

   c. Remind the firm that:

      (i) The report and letter of comments should be sent along with an appropriate response by the reviewed firm to the administering entity within thirty days of the date it receives the report or by the firm’s peer review due date, whichever date is earlier.

      (ii) The letter of response should be addressed to the peer review committee of the administering entity and should describe the remedial, corrective actions that the firm has taken or will take to prevent a recurrence of each matter discussed in the report and letter of comments.

      (iii) The reviewed firm should submit a draft of its letter of response to the reviewer for review and comment prior to submitting the response to the administering entity.
(iv) The reviewed firm should not publicize the results of the review or distribute copies of the report to its personnel, clients, or others until it has been advised that the report has been accepted by the administrating entity.

19. For reviews conducted by committee-appointed reviewers, submit your bill to the administrating entity. Make sure the bill includes the Federal employer identification number for Form 1099 purposes, when applicable.

20. Reminder: After the reviewed firm’s draft letter of response has been reviewed, communicate to the reviewed firm any comments you may have on the response.

21. Reminder: After the report on the review has been accepted, return the financial statements to the firm or shred the financial statements received.
Appendix B

ENGAGEMENT REVIEW COMPLETION FORM

Date: ________________________________

To: ________________________________________________________________

From: ______________________________________________________________

(Name of the Reviewer)

Re: Review of _______________________________________________________  

   Firm Number ______________________________ Review Number ______________

1. On what date was the engagement review completed? __________________

2. When was the report and letter of comments, if any, mailed to the reviewed firm? _______________

3. What was the general nature of the report?* _____________________________

4. Where will the working papers be shipped? ________________________________

   ___________________________________________________________________

   ___________________________________________________________________

   ___________________________________________________________________

5. When will the working papers be shipped to the entity noted in (4) above? ___________

   * * * * * * * * * * *

Reviewer’s Signature ________________________________________________

Date: ________________________________

[The next page is 6301.]

* Please use the following codes:
  1. Unmodified—No letter of comments
  2. Unmodified—With letter of comments
  3. Modified—Significant Departures (only)
  4. N/A
  5. N/A
  6. N/A
  7. Adverse
PRP Section 6300

Instructions for Use of Matter for Further Consideration Forms—Engagement Reviews

.01 The reviewer should prepare a matter for further consideration form (MFC) to clearly and concisely document all possible deficiencies and matters that require additional information or explanation of facts from the reviewed firm.

.02 Generally, the reviewer will discuss the matters on MFC forms with the reviewed firm by telephone. Consequently, the reviewer should carefully document the reviewed firm's explanations.

.03 The reviewer may wish to obtain the engagement partner's signature on matters that will be the subject of a modified report.
MATTER FOR FURTHER CONSIDERATION—ENGAGEMENT REVIEWS

Firm ____________________________________________ MFC No. _____

Professional Standards Reference(s) ________________

REVIEWER'S DESCRIPTION OF MATTER

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

REVIEWED FIRM AGREES WITH THE REVIEWER'S DESCRIPTION? YES ____ NO ____

REVIEWED FIRM'S COMMENTS ON CIRCUMSTANCES, SIGNIFICANCE OF MATTER, ETC.

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

Included in Letter of Comments? YES ____ NO ____

If "No," explain:

TYPE OF MATTER

____ Reporting ____ Disclosure ____ Presentation ____ Documentation

________________________________________________________________________

________________________________________________________________________

Signatures ____________________ Dates

Engagement Partner __________________________________________________________________

Reviewer __________________________________________________________________________

Engagement
No. _____________________________

Checklist page ________________

Question ______________________

________________________________________________________________________
PRP Section 6400

Engagement Statistics Data Sheet—Engagement Reviews

.01 The reviewer should prepare an engagement review engagement statistics data sheet for the reviewed firm.
I. Engagement Statistics

<table>
<thead>
<tr>
<th>Type of Engagement</th>
<th>Total No. Reviewed</th>
<th>Total No. Substandard</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reviews</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Compilations—With Disclosures</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Compilations—Omit Disclosures</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Attestations</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**REASON CODES**
- Substandard Engagement Reason Codes
  - GAP Non-GAAP
  - SAR Non-SSARS
  - ATT Non-SSAE

**ACTIONS CODES**
- Substandard Engagement Action Codes
  1. Report and/or financial statements recalled, revised and reissued
  2. Financial statements corrected or to be corrected in subsequent year (issuance of financial statement on subsequent period is imminent)
  3. Omitted procedure(s) performed or to be performed in subsequent engagement (performance of subsequent engagement is imminent)
  4. Cause of independence impairment eliminated
  5. Unable to apply omitted procedures*
  6. Notified parties that no reliance should be placed on the report issued
  7. Engagement letter to be prepared on subsequent engagements where a compilation report is not issued.
  8. Engagement letter on subsequent engagements to include the required descriptions or statements, or additional matters, when applicable, where a compilation report is not issued.

II. Reasons for Substandard Engagements

<table>
<thead>
<tr>
<th>Type of Engagement Reviewed</th>
<th>Reason Code</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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</tbody>
</table>

III. Actions To Be Taken on Substandard Engagements

<table>
<thead>
<tr>
<th>Type of Engagement Reviewed</th>
<th>Action Code</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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</table>

IV. Engagements Excluded from Review

<table>
<thead>
<tr>
<th>Type of Engagement</th>
<th>Reason Code</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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</tbody>
</table>

**EXCLUDED ENGAGEMENT REASON CODES**
1. Subject of litigation
2. Subject of investigation by government agency
3. Client imposed restrictions
4. Other

* Action Code 5 would apply to those engagements where the documentation did not conform with the applicable requirements of SSARS and the SSAEs in all material respects.
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# PRP Section 7100

**Instructions to Firms Having a Report Review**

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<tr>
<td>Information Needed to Assign a Report Review</td>
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<tr>
<td>Engagement Questionnaire—Report Reviews</td>
<td></td>
</tr>
</tbody>
</table>
A report review is available to firms that only perform compilations under Statements on Standards for Accounting and Review Services (SSARS) where the firm has compiled financial statements that omit substantially all disclosures. However, those firms that issue compilation reports under SSARS where "Selected Information—Substantially All Disclosures Required are Not Included" (as discussed in SSARS) are required to have an engagement review.

Prior to the review, the administering entity or the assigned reviewer will ask you to provide summarized information showing the number of compilation engagements under SSARS where the firm has compiled financial statements that omit substantially all disclosures classified into major industry categories and broken down by each partner of the firm who is responsible for the issuance of reports on such engagements. The form that will be used for this purpose is reproduced in Appendix A to these instructions.

Discuss with the reviewer the twelve-month period to be covered by the review. Ordinarily, the review should be performed within three to five months following the end of the year to be reviewed.

The number of engagements selected should ordinarily adhere to the following guidelines:

a. Select one engagement from each partner of the firm responsible for the issuance of compiled financial statements that omit substantially all disclosures.

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

Within thirty days of being notified by the reviewer or the administering entity of the type of engagements selected for review, the firm should submit the following information for each engagement selected—

a. A copy of the financial statements and the accountant's report. The client's name may be deleted and, if that is done, the engagement should be assigned a code number by the firm. The firm should retain a record of those code numbers to facilitate responding to any questions by the reviewer in the course of the review.

b. A completed "engagement questionnaire" (see Appendix B).

The engagements selected should have periods ending during the agreed-upon review year.

A firm may be dropped from the peer review program if it has failed to have a review by the date assigned. Therefore, if a firm fails to provide the information described in paragraph .05 in sufficient time to enable the reviewer to perform the report review prior to the required date, the reviewer should promptly advise the entity administering the review of this fact. Appropriate due process procedures will be followed in these circumstances.

During the course of the review, the reviewer may have questions about the selected engagements. The firm is expected to respond promptly to questions raised during the review, whether those questions are raised orally or in writing.

The reviewer should discuss with the firm, the matters for further consideration (MFCs), and the comments and the recommendations prior to preparing the written report. Therefore, the reviewer and the firm should discuss an appropriately tailored recommendation to be included in the report that the firm will agree to implement.

Upon receipt of the report on the review, an authorized member of the firm is then required to sign the report, whether or not there are comments, acknowledging that there are no disagreements on significant matters and that the firm agrees to correct matters included as comments by implementing the recommendation(s). The signed copy of the report should be submitted to the administering entity within thirty days of the date the report was received from the reviewer or by the firm’s peer review due date, whichever date is earlier.

The administering entity will not make the report on the firm's report review available to the public. The report should not be distributed by the firm to its personnel, clients or others until the firm has received a formal notification that it has been accepted by the administering entity.
Exhibit 1
DEFINITION OF AN ACCOUNTING AND AUDITING PRACTICE FOR PEER REVIEW PURPOSES

Paragraph 4 of the AICPA Standards for Performing and Reporting on Peer Reviews (PRP section 3100.04) states:

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), Statements on Standards for Attestation Engagements (SSAEs), and Government Auditing Standards (the Yellow Book) issued by the U.S. General Accounting Office (GAO).

\( ^1 \) 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.
Appendix A
AICPA Peer Review Program

INFORMATION NEEDED TO ASSIGN A REPORT REVIEWER

1. Firm Name ____________________________________________

2. During the last twelve months, did your firm perform any engagements covered by:
   • Statements on Auditing Standards (SASs)?
   • Statements on Standards for Attestation Engagements (SSAEs)?
   • Statements on Standards for Accounting and Review Services (SSARS) relating to reports on reviewed financial statements, reports on compiled financial statements with full disclosure, or reports on compiled financial statements where “Selected Information—Substantially All Disclosures Required are Not Included?”
   Yes □ No □ If yes, please indicate the date you issued your last report _____/_____/____ and the period ending _____/_____/____.

3. Does your firm plan to perform any engagements referred to in question 2 during the next twelve months? Yes □ No □

4. Whenever possible, we select a reviewer who practices in the state where your firm’s main office is located. However, we will not select a reviewer located in the immediate geographic area of that office or other geographic areas specified by you if, for example, you have a significant office or client in that area. We use the first three digits of the zip code to define a geographic area.

   a. Do you object to a reviewer being selected from the state where your main office is located?
      Yes □ No □ If yes, the reviewer will be selected from another state.

   b. If the answer to 4(a) is no, please indicate the first three digits of those zip codes within your state where you would not like a reviewer to be selected.³

      □ □ □ □ □ □ □ □ □ □ □

5. Please provide the information on the following page concerning the number of compilation engagements under SSARS where the firm has compiled financial statements that omit substantially all disclosures with periods ending during the last twelve months. This information should be classified into major industry categories and broken down by each partner of the firm who is responsible for the issuance of reports on such engagements.

6. Indicate the date that your firm would like the review to commence _____/_____/____. This date should be sufficiently prior to the due date on page 1 to allow for completion of your peer review by that date. Completion includes the submission of all peer review documents to the entity administering the peer review.

---

³ To determine whether there are zip code areas that you would like excluded or included, you may wish to refer to your local phone book(s), client lists, or mailing lists, if any.
### Instructions to Firms Having a Report Review

**REPORT REVIEW ENGAGEMENT SUMMARY FORM**

For the Twelve Month Period Ended __/__/____

<table>
<thead>
<tr>
<th>Industry of the Client</th>
<th>Level of Service Provided</th>
<th>Number of Engagements Performed</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Partner 1</td>
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<td>CO</td>
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<td>CO</td>
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<tr>
<td></td>
<td>CO</td>
<td></td>
</tr>
</tbody>
</table>

Total Number of C-8” Engagements Performed  

Signature __________________________________________ Date ____________________

Title __________________________________________

---

4 Please refer to paragraph .02 on page 7102 for instructions in completing this form.

5 Please use the industry codes on the following page.

6 Each monthly compilation engagement counts as one engagement.

7 If the firm issues compilation reports under SSARS where “Selected Information—Substantially All Disclosures Required are Not Included” (as discussed in SSARS), the firm is required to have an engagement review.

8 Compilation engagements performed where the firm has compiled financial statements that omits substantially all disclosures, and the engagements were performed under Statement on Standards for Accounting and Review Services (SSARS) No. 8 where an engagement letter was issued instead of a report.
Level of Service Codes

Please use the following codes to reflect the level of service provided:

CO  Compilation of historical or personal financial statements that omits substantially all disclosures

C-8  Compilation of historical or personal financial statements that omits substantially all disclosures, and the engagements were performed under Statement on Standards for Accounting and Review Services (SSARS) No. 8 where an engagement letter was issued instead of a report

Industry Codes

<table>
<thead>
<tr>
<th>Code</th>
<th>Industry Description</th>
<th>Code</th>
<th>Industry Description</th>
</tr>
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<tbody>
<tr>
<td>110</td>
<td>Agricultural, Livestock, Forestry &amp; Fishing</td>
<td>235</td>
<td>Leasing Companies</td>
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<tr>
<td>115</td>
<td>Airlines</td>
<td>240</td>
<td>Life Insurance Companies</td>
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<td>120</td>
<td>Auto Dealerships</td>
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<tr>
<td>125</td>
<td>Banking</td>
<td>250</td>
<td>Mortgage Banking</td>
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<tr>
<td>130</td>
<td>Broadcasting and Entertainment</td>
<td>255</td>
<td>Motor Carriers</td>
</tr>
<tr>
<td>135</td>
<td>Brokers and Dealers in Securities</td>
<td>260</td>
<td>Not-for-Profit Organizations (including Voluntary Health</td>
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<tr>
<td>140</td>
<td>Brokers and Dealers in Commodities</td>
<td></td>
<td>and Welfare Organizations)</td>
</tr>
<tr>
<td>145</td>
<td>Casinos</td>
<td>265</td>
<td>Employee Benefit Plans (including ERISA)</td>
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<tr>
<td>150</td>
<td>Colleges and Universities</td>
<td>268</td>
<td>Personal Financial Statements</td>
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<td>Professional Services (Doctors, Lawyers, Architects, etc.)</td>
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<td>Franchisors</td>
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<td>Fire and Casualty Insurance Companies</td>
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<td>Small Loan Companies</td>
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<td>Government Contractors</td>
<td>320</td>
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<td>Health Maintenance Organizations</td>
<td>325</td>
<td>State and Local Government</td>
</tr>
<tr>
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<td>Hospitals</td>
<td>330</td>
<td>Telephone Companies</td>
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<tr>
<td>217</td>
<td>Nursing Homes</td>
<td>335</td>
<td>Utilities</td>
</tr>
<tr>
<td>222</td>
<td>HUD</td>
<td>340</td>
<td>Wholesale Distributors</td>
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<tr>
<td>225</td>
<td>Insurance Agents and Brokers</td>
<td>999</td>
<td>Other (Describe)</td>
</tr>
<tr>
<td>230</td>
<td>Investment Companies and Mutual Funds</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* If the firm issues compilation reports under SSARS where “Selected Information—Substantially All Disclosures Required are Not Included” (as discussed in SSARS), the firm is required to have an engagement review.

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Appendix B
AICPA Peer Review Program

ENGAGEMENT QUESTIONNAIRE—REPORT REVIEWS
(To Be Completed by Reviewed Firm)

FIRM NAME

General Data

Engagement Name or Code No. ____________________________
(If client names have been deleted from the financial statements, code these sheets as Nos. 1, 2, etc. and mark the financial statements correspondingly.)

Period covered by financial statements ________________

Total assets $ _______________

Date of report (engagement letter if no report was issued) _______________

Long-term debt $ _______________

Date report/financial statements released _______________

Equity $ _______________

Date that the fee for the prior engagement was paid _______________

Net sales $ _______________

Net income $ _______________

Major lines of business ____________________________________________

_________________________________________________________________

Accountant with final responsibility for the engagement (for example, sole practitioner or engagement partner)

Name ____________________________

Hours on Engagement _________

Number of Years on Job _________

Accountant in charge of field work (for example, manager, supervisor, or senior accountant)

Name ____________________________

Hours on Engagement _________

Number of Years on Job _________

Other personnel (number only)

Name ____________________________

Hours on Engagement _________

Number of Years on Job _________

Nature of Entity:

( ) Independent entity

( ) Consolidated or combined group

( ) Subsidiary

( ) Other (explain) ____________________________

Financial Statements Included:

( ) Balance sheet

( ) Income statement

( ) Statement of cash flows

( ) Statement of retained earnings

( ) Supplementary information (describe) ____________________________

( ) Other (explain) ____________________________

AICPA Peer Review Program Manual

PRP §7100.14
Accounting Basis for Financial Statements:
(  ) Generally accepted accounting principles
(  ) Cash basis
(  ) Income tax basis
(  ) Other (explain) ________________________________

Specific Engagement Questions
(If this is a compilation engagement where the firm has compiled financial statements that omits substantially all disclosures, and the engagement was performed under Statement on Standards for Accounting and Review Services (SSARS) No. 8, where an engagement letter was issued instead of a report, question B should be completed, and the questions under C, D, and E should be completed in lieu of the question under A.)

A. Is the firm independent with respect to this entity? If “no,” answer question 1.
   1. Did the compilation report include a statement that the firm was not independent?

B. Were there any disagreements with the client on this engagement that, if not resolved to the firm’s satisfaction, would have caused the firm to modify its report (or engagement letter on a SSARS No. 8 engagement where no report was issued) or to withdraw from the engagement? If the answer is “yes,” provide sufficient information in the “commentary” section of this questionnaire to enable the reviewer to consider whether the item has been appropriately accounted for and/or disclosed.

C. If the engagement was performed under Statement on Standards for Accounting and Review Services (SSARS) No. 8 where no report was issued, did the documentation of the understanding include the following descriptions or statements as required by SSARS No. 8, paragraph .21:
   1. The nature and limitations of the services to be performed?
   2. A compilation is limited to presenting in the form of financial statements information that is the representation of management?
   3. The financial statements will not be audited or reviewed?
   4. No opinion or any other form of assurance on the financial statements will be provided?
   5. Management has knowledge about the nature of the procedures applied and the basis of accounting and assumptions used in the preparation of the financial statements?
   6. Acknowledgement of management’s representation and agreement that the financial statements are not to be used by third parties?
   7. The engagement cannot be relied upon to disclose errors, fraud, or illegal acts?
D. Did the documentation of the understanding of the engagement performed under Statement on Standards for Accounting and Review Services (SSARS) No. 8 where no report was issued address the following additional matters, if applicable, as required by SSARS No. 8, paragraph .21:

1. Material departures from GAAP or OCBOA may exist and the effects of those departures, if any, on the financial statements may not be disclosed?  
   Yes  No  Ref.
2. Substantially all disclosures (and statement of cash flows, if applicable) required by GAAP or OCBOA may be omitted?  
   Yes  No  Ref.
3. Lack of independence?  
   Yes  No  Ref.
4. A reference to supplementary information?  
   Yes  No  Ref.

E. Did the accountant include a reference on each page of the financial statements restricting their use such as: “Restricted for Management’s Use Only,” or “Solely for the information and use by the management of (name of entity) and not intended to be and should not be used by any other party as required by Statement on Standards for Accounting and Review Services (SSARS) No. 8, paragraph .22?  
   Yes  No  Ref.

Engagement (Partner’s Signature) ___________________________  Date ___________________________
<table>
<thead>
<tr>
<th>Question Number</th>
<th>Commentary</th>
</tr>
</thead>
</table>

*Note: Attach additional sheets if required.*

*[The next page is 7201.]*
PRP Section 7200

Instructions to Reviewers Performing Report Reviews

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B. Report Review Completion Form ............................. .26
Introduction

.01 These materials have been developed based on the AICPA Standards for Performing and Reporting on Peer Reviews (the Standards) and materials contained in the AICPA Peer Review Program Manual related to report reviews. See Interpretation No. 7 to the Standards, regarding compilation engagements performed under Statement on Standards for Accounting and Review Services (SSARS) No. 8, where no compilation report is issued.

.02 A firm can have a report review only if it performs compilations under Statements on Standards for Accounting and Review Services (SSARS) where the firm has compiled financial statements that omit substantially all disclosures. If a firm issues compilation reports under SSARS where “Selected Information—Substantially All Disclosures Required are Not Included,” the firm is required to have an engagement review. (However, firms eligible to have a report review may voluntarily elect to have a system or an engagement review.) If a firm elects to have a system review, refer to PRP section 4000, “System Reviews,” and to PRP section 3300.25 for an illustration of an unmodified report on a system review of a firm that performs only accounting and review services, and certain engagements under the Statements on Standards for Attestation Engagements (SSAEs), and no engagements under the Statements on Auditing Standards (SASs) or examinations of prospective financial statements under the SSAEs. If a firm elects to have an engagement review, refer to PRP section 6000, “Engagement Reviews,” and to PRP section 3300.45 for an illustration of an unmodified report on an engagement review of a firm that only performs compilations that omit substantially all disclosures. Compliance with the positive enforcement program of a state board of accountancy does not constitute compliance with this requirement.

.03 Information concerning the reviewed firm or any of its clients or personnel is confidential and cannot be disclosed to anyone not involved in carrying out the peer review or administering the peer review program.

.04 The objective of a report review is to enable the reviewed firm to improve the overall quality of its compilation engagements that omit substantially all disclosures, which is accomplished by the reviewer providing 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 types of comments a peer reviewer would include within his or her report are not limited to those that would result in a modified report on an engagement review. However, the comments should be relevant and supportable in professional standards.

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

.06 A report review does not include a review of the working papers prepared on the engagements submitted for review, tests of the firm’s administrative or personnel files, interviews of selected firm personnel, or other procedures performed in a system or engagement review. See Interpretation No. 7 to the Standards, regarding compilation engagements performed under Statement on Standards for Accounting and Review Services (SSARS) No. 8, where no compilation report is issued.

Engagement Selection Guidelines

.07 Prior to the review, the administering entity or the assigned reviewer will ask the reviewed firm to provide summarized client information showing the number of its compilation engagements under SSARS where the firm has compiled financial statements that omit substantially all disclosures classified into major
industry categories and broken down by each partner of the firm responsible for the issuance of reports on such engagements. The form that will be used for this purpose is reproduced in Exhibit 1 to these materials.

.08 Either the reviewer or the administering entity should discuss with the reviewed firm the twelve month period to be covered by the review. That period should ordinarily end three to five months prior to the performance of the review and all reports selected for review should ordinarily have periods ended during the period.

.09 Based on the summarized client information, the administering entity or the reviewer will select the number and types of engagements to be reviewed.

.10 Ordinarily, the number of engagements selected should adhere to the following guidelines:
   a. Select one engagement from each partner of the firm responsible for the issuance of compiled financial statements that omit substantially all disclosures.
   b. Ordinarily, at least two engagements should be selected for review.

.11 The types of engagements selected should also attempt to include clients operating in different industries (especially high risk industries).

.12 The AICPA and many state societies administering report reviews advise reviewers they appoint of the number of engagements to be selected. The reviewer should consult with the entity that made the appointment:
   a. If the reviewer finds that the number of engagements he or she has been instructed to select does not conform with the stated guidelines.
   b. If the reviewer has reason to believe that he or she should select more than the number of engagements specified by the administering entity.

.13 Within 30 days after the reviewer or the administering entity provides the firm with a description of the number and types of engagements to be reviewed, the firm should select the engagements in accordance with those specifications and submit the following information to the reviewer or the administering entity (as applicable) for each engagement:
   a. A copy of the most recent financial statements and the accountant’s report. The client’s identity may be masked and assigned a code number. The reviewed firm should keep a record of those code numbers to be able to respond to any questions by the reviewer.
   b. A completed Engagement Questionnaire.

.14 A firm may be dropped from the peer review program if it has failed to have a review by the date assigned. Therefore, if a firm fails to provide the information described in paragraph .13 in sufficient time to enable the reviewer to complete the report review prior to the required due date, the reviewer should promptly advise the entity administering the review of this fact. Appropriate due process procedures will be followed in these circumstances.

Performing the Review

.15 Report reviews must be documented using the programs and checklists issued by the AICPA Peer Review Board. These materials include a Reviewer’s Checklist (Appendix A) which includes an overview of the way in which a report review is to be conducted.

.16 Reviewers should review the engagements submitted along with the background information provided by the firm. Questions and possible deficiencies noted during the review should be documented
on Matter for Further Consideration (MFC) forms (PRP section 7300) and discussed with the reviewed firm. The reviewer may obtain the firm’s response to the matters noted on the MFC forms by telephone or in writing.

.17 Discuss the comments and the recommendations that should be considered by the firm prior to preparing the written report. Discuss with the firm an appropriately tailored recommendation to be included in the report that the firm will agree to implement.

.18 Reviewer’s should complete the Engagement Statistics Data Sheet (PRP section 7400). The information included on this sheet should be consistent with the information included in the report issued on the review. Exhibit 2 includes some further guidance on completing this sheet.

.19 Guidance for Writing Peer Review Reports (PRP section 3300) and Appendix L in the AICPA Standards for Performing and Reporting on Peer Reviews (PRP section 3100) provide guidance on the considerations governing the type of report to issue and includes an illustration of the standard form for a report on a report review.

After the Review

.20 After discussing the comments and recommendations resulting from the report review with the firm, the reviewer should furnish the reviewed firm with a written report, and remind the reviewed firm that—

a. An authorized member of the firm should sign the report, whether or not there are comments, acknowledging that there are no disagreements on significant matters and that the firm agrees to correct matters included as comments by implementing the recommendation(s).

b. The firm should submit the signed copy of the report to the administering entity within thirty days of receipt of the report from the reviewer, or by the due date, whichever is earlier.

.21 Within thirty days of the completion date or by the firm’s peer review due date, whichever date is earlier on a report review, the reviewer should also submit a copy of the documents listed in Exhibit 3 to the state CPA society administering the review. Copies of the financial statements that were reviewed should not be included in the working papers; they should either be destroyed or returned to the reviewed firm.
Exhibit 1

REPORT REVIEW ENGAGEMENT SUMMARY FORM

For the Twelve Month Period Ended ___ / ___

<table>
<thead>
<tr>
<th>Industry of the Client</th>
<th>Level of Service Provided*</th>
<th>Partner 1</th>
<th>Partner 2</th>
<th>Partner 3</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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</tbody>
</table>

Total number of C-8** Engagements Performed

Signature_____________________________________________  Date_____________________________
Title_________________________________________________

---

4 Please refer to paragraph .07 on page 7202 for instructions in completing this form.

* If the firm issues compilation reports under SSARS where “Selected Information—Substantially all Disclosures Required are Not Included” (as discussed in SSARS), the firm is required to have an engagement review.

** Compilation engagements performed where the firm has compiled financial statements that omits substantially all disclosures, and the engagements were performed under Statement on Standards for Accounting and Review Services (SSARS) No. 8 where an engagement letter was issued instead of a report.
Exhibit 1
(Continued)

Level of Service Codes

Please use the following codes to reflect the level of service provided:

**CO** Compilation of historical or personal financial statements that omits substantially all disclosures

**C-8** Compilation of historical or personal financial statements that omits substantially all disclosures, and the engagements were performed under Statement on Standards for Accounting and Review Services (SSARS) No. 8 where an engagement letter was issued instead of a report

Industry Codes

<table>
<thead>
<tr>
<th>Code</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>110</td>
<td>Agricultural, Livestock, Forestry &amp; Fishing</td>
</tr>
<tr>
<td>115</td>
<td>Airlines</td>
</tr>
<tr>
<td>120</td>
<td>Auto Dealerships</td>
</tr>
<tr>
<td>125</td>
<td>Banking</td>
</tr>
<tr>
<td>130</td>
<td>Broadcasting and Entertainment</td>
</tr>
<tr>
<td>135</td>
<td>Brokers and Dealers in Securities</td>
</tr>
<tr>
<td>140</td>
<td>Brokers and Dealers in Commodities</td>
</tr>
<tr>
<td>145</td>
<td>Casinos</td>
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<tr>
<td>150</td>
<td>Colleges and Universities</td>
</tr>
<tr>
<td>155</td>
<td>Common Interest Realty Associations</td>
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<tr>
<td>160</td>
<td>Computer Software Development and Sales</td>
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<tr>
<td>165</td>
<td>Construction Contractors</td>
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<tr>
<td>170</td>
<td>Continuing Care Retirement Communities</td>
</tr>
<tr>
<td>175</td>
<td>Credit Unions</td>
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<tr>
<td>180</td>
<td>Extractive Industries—Oil and Gas</td>
</tr>
<tr>
<td>185</td>
<td>Extractive Industries—Mining</td>
</tr>
<tr>
<td>186</td>
<td>Federal Financial Assistance Programs</td>
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<td>190</td>
<td>Finance Companies</td>
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<td>195</td>
<td>Franchisors</td>
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<td>Fire and Casualty Insurance Companies</td>
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<td>205</td>
<td>Government Contractors</td>
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<td>Health Maintenance Organizations</td>
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<td>Hospitals</td>
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<td>217</td>
<td>Nursing Homes</td>
</tr>
<tr>
<td>222</td>
<td>HUD</td>
</tr>
<tr>
<td>225</td>
<td>Insurance Agents and Brokers</td>
</tr>
<tr>
<td>230</td>
<td>Investment Companies and Mutual Funds</td>
</tr>
<tr>
<td>235</td>
<td>Leasing Companies</td>
</tr>
<tr>
<td>240</td>
<td>Life Insurance Companies</td>
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<tr>
<td>245</td>
<td>Manufacturing</td>
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<td>250</td>
<td>Mortgage Banking</td>
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<td>255</td>
<td>Motor Carriers</td>
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<tr>
<td>260</td>
<td>Not-for-Profit Organizations (including Voluntary Health and Welfare Organizations)</td>
</tr>
<tr>
<td>265</td>
<td>Employee Benefit Plans (including ERISA)</td>
</tr>
<tr>
<td>268</td>
<td>Personal Financial Statements</td>
</tr>
<tr>
<td>270</td>
<td>Professional Services (Doctors, Lawyers, Architects, etc.)</td>
</tr>
<tr>
<td>275</td>
<td>Publishing</td>
</tr>
<tr>
<td>280</td>
<td>Real Estate Brokerage</td>
</tr>
<tr>
<td>285</td>
<td>Real Estate Development</td>
</tr>
<tr>
<td>295</td>
<td>Real Estate Investment Trusts</td>
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<tr>
<td>300</td>
<td>Reinsurance Companies</td>
</tr>
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<td>305</td>
<td>Retail Trade</td>
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<td>308</td>
<td>Rural Utilities Service Borrowers</td>
</tr>
<tr>
<td>310</td>
<td>Savings and Loan Associations</td>
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<td>315</td>
<td>Small Loan Companies</td>
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<td>320</td>
<td>School Districts</td>
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<tr>
<td>325</td>
<td>State and Local Government</td>
</tr>
<tr>
<td>330</td>
<td>Telephone Companies</td>
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<tr>
<td>335</td>
<td>Utilities</td>
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<td>340</td>
<td>Wholesale Distributors</td>
</tr>
<tr>
<td>999</td>
<td>Other (Describe)</td>
</tr>
</tbody>
</table>

*If the firm issues compilation reports under SSARS where “Selected Information—Substantially all Disclosures Required are Not Included” (as discussed in SSARS), the firm is required to have an engagement review.

PRP §7200.22

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Exhibit 2

COMPLETING THE REPORT REVIEW ENGAGEMENT STATISTICS DATA SHEET

After reviewing the selected engagements and discussing your comments with the reviewed firm, the Engagement Statistics Data Sheet (PRP section 7400) should be completed. That form should be completed based on the following guidance.

Section I

Section I asks for information concerning the number of engagements reviewed, number of comments, number of repeat comments, and the number of engagements deemed substandard. The term “substandard engagements” cannot be found in any formal accounting, auditing, or practice-monitoring program literature. However, it is used by most parties involved in the administration of the practice-monitoring programs to refer generically to situations in which a firm has not complied in all material respects with professional standards.

An engagement on a report review is deemed to be “substandard” when subsequent to the date of an issued report (or an engagement letter on a SSARS No. 8 engagement), the firm becomes aware that facts may have existed at that date which might have affected its report (or an engagement letter on a SSARS No. 8 engagement) had it then been aware of such facts. This includes reporting, and financial statement presentation.

Reference should be made to AR sections 100.42, 9100.13 and .14 of AICPA Professional Standards, vol. 2, when “substandard engagements” are encountered on a report review.

An engagement is not generally called substandard when—

- An error has been made in accounting for a transaction and the error is immaterial.
- The accountants’ report does not cover all periods covered by the financial statements, but the periods covered are identified in the body of the financial statements.
- The accountants’ report does not cover the supplemental information that was issued along with the financial statements.
- The titles on the financial statements are not consistent with the report issued.

Section II

Section II asks the reviewer to describe the reasons why he/she concluded that one or more engagements were substandard. If the reviewer indicates in Section I that any engagements were substandard, then Section II should describe why each engagement was deemed substandard.

To assist the reviewer in noting why an engagement is substandard, two Reason Codes have been provided:

- GAP should be used to indicate that the financial statements are not in accordance with generally accepted accounting principles.
- SAR should be used to indicate that the report was not in accordance with the Statements on Standards for Accounting and Review Services.

After entering the Reason Code, the reviewer should provide a brief description of the deficiency noted.

Some examples of comments that might be written when a GAP Reason Code is noted are:

- Inventory and accounts receivable balances on monthly historical financial statements not adjusted since last annual historical financial statements.
- A statement of changes in financial position has been issued rather than a statement of cash flows.
Some examples of comments that might be written when a SAR Reason Code is noted are:

- No compilation report issued.
- The compilation report on historical financial statements does not indicate that substantially all disclosures have been omitted.
- The compilation report on historical financial statements does not indicate that a statement of cash flows has been omitted.
- A standard report on historical financial statements prepared under generally accepted accounting principles was issued rather than a report indicating that the financial statements have been prepared under an other comprehensive basis of accounting.
- No engagement letter documenting the understanding between accountant and management regarding the services to be performed and the limitations on the use of the financial statements, when the compiled financial statements are not expected to be used by a third party and a compilation report was not issued. (SSARS No. 8 engagement.)
- The engagement letter, which documents the understanding between accountant and management regarding services to be performed and the limitations on the use of the financial statements, when the compiled financial statements are not expected to be used by a third party and a compilation report was not issued, does not include any of the required seven descriptions or statements, or the four additional matters, when applicable, except for a reference to supplementary information. (SSARS No. 8 engagement.)

Section III

Section III asks for a list of any engagement(s) that the reviewed firm asked the reviewer not to review and the reasons why the reviewed firm made such a request. On a report review, such requests will be rare.
Exhibit 3

DOCUMENTS TO BE SUBMITTED TO THE ADMINISTERING ENTITY
BY INDIVIDUALS PERFORMING REPORT REVIEWS

The following is a list of the documents that should be submitted by the reviewer to the administering entity:

<table>
<thead>
<tr>
<th>Document Description</th>
<th>Page(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Report</td>
<td></td>
</tr>
<tr>
<td>2. Report Review Engagement Summary Form</td>
<td>7105</td>
</tr>
<tr>
<td>3. Engagement Questionnaire—Report Reviews (CART reviews only)</td>
<td>7107-7110</td>
</tr>
<tr>
<td>4. Reviewer's Checklist—Report Reviews</td>
<td>7210-7212</td>
</tr>
<tr>
<td>5. Report Review Completion Form</td>
<td>7213</td>
</tr>
<tr>
<td>6. Reviewer's Engagement Checklists (CART reviews only)</td>
<td>24201-24208</td>
</tr>
<tr>
<td>7. Matter for Further Consideration Forms—Report Reviews</td>
<td>7302</td>
</tr>
<tr>
<td>8. Engagement Statistics Data Sheet</td>
<td>7402</td>
</tr>
</tbody>
</table>
Appendix A

REVIEWER'S CHECKLIST—REPORT REVIEWS

This checklist must be completed on all report reviews of firms enrolled in the AICPA Peer Review Program. Report reviews are administered by state CPA societies participating in the program. Those entities are referred to collectively as the administering entity.

Questions regarding the use of this checklist or any other materials or about the review in general should be directed to the staff of the administering entity or to such other individuals the administering entity may identify for that purpose.

1. Obtain from the entity administering the review the background and scheduling information on the firm, and review and compare such information with that furnished by the firm. (See step 2.)

2. Review the background information furnished by the firm. If the information provided to the administering entity by the firm differs significantly from the information provided by the firm to you, please reconcile and notify the administering entity, if necessary.

3. Inquire whether the partners of the firm and the firm itself have licenses to practice public accounting in the state(s) in which the firm practices as required by the applicable state board(s) of accountancy. If any exception was noted, add an addendum to the Reviewer's Checklist explaining the effect on the firm's accounting practice and on the performance of the review.

4. If the firm was previously reviewed, read the report and letter of comments, if any, on the prior review and the firm's response thereto and make note of deficiencies discussed in the report, all of which should be emphasized in the current review:

5. Determine that the reviewed firm has submitted engagements for review in accordance with instructions previously provided to it by the administering entity or by you as the reviewer and indicate the number of engagements selected.

6. The scope of the review should not be increased beyond the minimum required under the Standards since the review will be engagement oriented, which makes it unnecessary to determine if there are any pervasive engagement deficiencies indicative of a systematic or compliance related problem discovered during a system review.

7. Perform the procedures outlined in the "Reviewer's Engagement Checklist—Report Reviews." Make any oral inquiries deemed necessary to consider whether the financial statements or information and the accountant's
reports submitted by the reviewed firm appear to conform with the requirements of professional standards. A report review does not include a review of working papers. Requests for working papers should not be necessary. (See the Standards for guidance on the objective of and basic requirements for a report review.)

8. During the review discuss and make note of—
   (i) the number of partners. _______
   (ii) the number of partners with responsibility for issuing reports on a complete set of financial statements. _______

9. Prepare a “Matter for Further Consideration” form (MFC) to document all possible deficiencies and matters that require additional information or explanation of facts from the reviewed firm.

10. Obtain the firm’s response to all significant deficiencies by telephone or in writing on an MFC form.

11. Discuss the comments and the recommendations that should be considered by the firm prior to preparing the written report. Discuss with the firm an appropriately tailored recommendation to be included in the report that the firm will agree to implement.

12. Consult with the AICPA staff when the firm has sold a portion of its non-attest practice to a non-CPA owned entity and has entered into service arrangements with that non-CPA owned entity to provide employees, office space, equipment, etc. for which the firm remits a percentage of its revenues or profits.

13. Consult with the administering entity (a) whenever the reviewer and the reviewed firm have a disagreement on a significant matter, including the comments and recommendations that should be considered by the reviewed firm based on the review of engagements, whether action should be taken to prevent future reliance on a previously issued report, and whether a report issued by the firm was not in conformity with professional standards, and (b) whenever the firm does not respond promptly to oral inquiries, which may constitute a failure to cooperate.

14. At the conclusion of the review: review all matters, including the firm’s response, on MFC forms, and document your reasons for including or not including such matters in the report on the review.

15. Inform the firm of the AICPA Peer Review Board’s resolution that a firm’s failure to cooperate with the state CPA society administering its review would include failing to receive an unmodified peer review report 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 comments with significant deficiencies are considered equivalent to failing to receive an unmodified report for the purposes of this resolution.)
16. Describe below the nature and extent of each matter discussed with the partner(s) of the firm that was not deemed of sufficient significance to include in the report as a comment and recommendation.

17. Prepare a report on the review following the guidance in the Standards, and—

a. Submit the original of the report to the reviewed firm within thirty days of the completion date or by the firm’s peer review due date, whichever date is earlier. Ordinarily, those report review procedures should be completed within thirty days of the date the reviewer receives the materials to be reviewed.

b. Submit a copy of the report, and working papers listed in Exhibit 3 (PRP section 7200.24) to the administering entity by an insured carrier. For CART reviews, all working papers are to be submitted to the administering entity.

c. Remind the firm that:

   (i) An authorized member of the firm should sign the report, whether or not there are comments, acknowledging that there are no disagreements on significant matters and that the firm agrees to correct matters included as comments by implementing the recommendation(s).

   (ii) The reviewed firm should submit the signed copy of the report to the administering entity within thirty days of receipt of the report, or by the due date, whichever is earlier.

   (iii) The reviewed firm should not publicize the results of the review or distribute copies of the report to its personnel, clients, or others until it has been advised that the report has been accepted by the administering entity.

18. For reviews conducted by committee-appointed reviewers, submit your bill to the administering entity. Make sure the bill includes the Federal employer identification number for Form 1099 purposes, when applicable.

19. Reminder: After the report on the review has been accepted, return the financial statements to the firm or shred the financial statements received.
Appendix B

REPORT REVIEW COMPLETION FORM

Date: __________________________

To: ________________________________________________________________

From: ________________________________________________________________

(Name of the Reviewer)

Re: Review of __________________________________________________________

Firm Number ___________________________ Review Number ____________________

1. On what date was the report review completed? __________________________

2. When was the report mailed to the reviewed firm? __________________________

3. What was the general nature of the report?* __________________________

4. Where will the working papers be shipped? __________________________

5. When will the working papers be shipped to the entity noted in (4) above? ___

* * * * * * * *

Reviewer’s Signature __________________________

Date: __________________________

[The next page is 7301.]

Please use the following codes:
1. No comments and recommendations.
2. With comments and recommendations.
PRP Section 7300

Instructions for Use of Matter for Further Consideration Forms—Report Reviews

.01 The reviewer should prepare a matter for further consideration form (MFC) to clearly and concisely document all possible deficiencies and matters that require additional information or explanation of facts from the reviewed firm.

.02 Generally, the reviewer will discuss the matters on MFC forms with the reviewed firm by telephone. Consequently, the reviewer should carefully document the reviewed firm’s explanations.
MATTER FOR FURTHER CONSIDERATION—REPORT REVIEWS

Firm ____________________________________________ MFC No. _______
Professional Standards Reference(s) ____________________

REVIEWER’S DESCRIPTION OF MATTER

________________________________________________________________________
________________________________________________________________________
________________________________________________________________________

REVIEWED FIRM AGREES WITH THE REVIEWER’S DESCRIPTION? YES ___ NO ___
REVIEWED FIRM’S COMMENTS ON CIRCUMSTANCES, SIGNIFICANCE OF MATTER, ETC.
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________

REVIEWER’S ADDITIONAL COMMENTS

________________________________________________________________________
________________________________________________________________________
________________________________________________________________________

INCLUDED IN REPORT AS A COMMENT AND RECOMMENDATION? YES ___ NO ___
If “No,” explain:

________________________________________________________________________

Signatures

Engagement Partner _________________________________________ _______
Reviewer _________________________________________________________ _______

Dates

[The next page is 7401.]
PRP Section 7400

Engagement Statistics Data Sheet—Report Reviews

.01 The reviewer should prepare a report review engagement statistics data sheet for the reviewed firm.
REPORT ENGAGEMENT STATISTICS DATA SHEET
(To Be Completed On All Reviews)

I. Engagement Statistics

<table>
<thead>
<tr>
<th>Type of Engagement</th>
<th>Total No. Reviewed</th>
<th>Total No. of Comments</th>
<th>Total No. of Repeat Comments</th>
<th>Total No. Substandard</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compilations—Omit Disclosures</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

II. Reasons for Substandard Engagements

<table>
<thead>
<tr>
<th>Type of Engagement Reviewed</th>
<th>Reason Code</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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<td></td>
<td></td>
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</tbody>
</table>

III. Engagements Excluded from Review

<table>
<thead>
<tr>
<th>Type of Engagement</th>
<th>Reason Code</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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<td></td>
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<td></td>
</tr>
</tbody>
</table>

REASON CODES
Substandard Engagement Reason Codes
GAP Non-GAAP
SAR Non-SSARS

EXCLUDED ENGAGEMENT REASON CODES
1. Subject of litigation
2. Subject of investigation by government agency
3. Client imposed restrictions
4. Other

[The next page is 8001.]
PRP Section 8000

[Reserved.]

[The next page is 9001.]
PRP Section 9000
Guidelines for Associations of CPA Firms in the AICPA Peer Review Program

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</tr>
<tr>
<td>C. Sample Letter of Comments</td>
<td>.21</td>
</tr>
</tbody>
</table>

[The next page is 9101.]
PRP Section 9100

Guidelines for Associations of CPA Firms in the AICPA Peer Review Program

Introduction

.01 The objective of these guidelines is to establish procedures under which an association of CPA firms or its member firms may conduct peer reviews of an association-member firm enrolled in the AICPA peer review program, provided it receives the approval of the AICPA Peer Review Board. Such reviews will meet the requirements of the AICPA peer review program if they are conducted in accordance with PRP section 3100, “Standards for Performing and Reporting on Peer Reviews,” and this section.

.02 As used in this section, associations of CPA firms includes any association, network, or alliance of accounting firms. The term also applies to two or more firms or a group of firms (whether a formal or informal group) that jointly market or sell services.

Independence

.03 The association and its member firms must meet the following independence criteria:

a. The association, as distinct from its member firms, does not perform any professional services other than those it provides to its member firms or affiliates. (For purposes of this requirement “professional services” include accounting, tax, personal financial planning, litigation support services and the professional services for which standards are promulgated by bodies designated by AICPA Council, such as Statements on Auditing Standards and Statements on Standards for Attestation Engagements.)

b. The association does not make representations regarding the quality of professional services performed by its member firms to assist member firms in obtaining engagements, unless the representations are objective or quantifiable. However, member firms may independently publicize their membership in the association. In addition, an association may respond to inquiries and prepare promotional materials that firms may use to obtain professional engagements on their own behalf.

c. Referral or participating work among member firms is arranged directly by the firms involved.

d. The association does not have any direct or material indirect financial interest or involvement in its member firms in sharing fees generated by members through the sale of products or services.

e. The association does not exercise any direct or indirect management control over the professional or administrative functions of its member firms.

Plan of Administration

.04 Annually, the association must file a plan of administration with AICPA Practice Monitoring that has been accepted by the AICPA Peer Review Board prior to the association or its members scheduling or performing any peer reviews of other member firms during that year.
Association Quality Control Materials

.05 In the event that materials used by its members constitute association quality control materials, the association shall arrange for an independent triennial review of those materials and the related system of quality control. All quality control materials are accepted by the SECPS Peer Review Committee for both the SECPS and AICPA peer review programs. Therefore, firms that share materials are advised to consult with the SECPS peer review program if an independent review of such shared materials appears necessary. The report resulting from the review of the materials, the letter of comments, if any, and the letter of response thereto, should be made available to the association member firms.

Reviews Conducted by an Association

.06 In addition to fulfilling the preceding requirements, an association (as contrasted to its member firms) may conduct peer reviews of its member firms if the association—

a. Establishes policies and procedures to ensure that the reviews are conducted in a manner consistent with the AICPA peer review program standards,

b. Requires that a majority of the review team members, including the team captain, be from association member firms, and

c. Submits to triennial administrative reviews.

.07 The initial triennial administrative review should be performed during the second year that the association is involved in conducting peer reviews of its member firms under the peer review program. Such administrative reviews may be performed by a firm that is enrolled in the AICPA peer review program provided that such firm is not a member of the association under review. The review team shall possess the same qualifications as those required for review teams on system reviews.

Oversight

.08 The AICPA Peer Review Board has the right to monitor an association’s administrative and/or review activities relating to the peer review program and to review the work of an individual review team.

---


2 See PRP section 9200, "Guidelines for Performing Administrative Reviews of Associations of CPA Firms," for suggested review procedures for administrative reviews of authorized associations.
.09 Appendix A

Examples of Association Quality Control Materials

Definition

1. Association quality control materials are materials that are either—
   a. Prepared by the association or a member firm(s) for use by its member firms; or
   b. Composed of materials or programs provided by a third party and tailored for or developed for the association or its member firms.

Examples

   Example 1—The XYZ Company is contracted to present to member firms of an association a course on computer auditing tailored to the needs of its members. Such a course would constitute an association quality control material because the course was tailored to the individual association’s needs.

   Example 2—The XYZ Company is contracted to present to newly hired assistants of association member firms a course on working paper techniques. This course is identical to the course presented to other groups and is not modified or tailored for the association. Such a course would not be considered an association quality control material.

   Example 3—An accounting firm that is not a member of the association has agreed to supply its own accounting and auditing manual to all the association member firms. Such a manual, since it was not tailored for or developed for the association and its member firms, would not constitute an association quality control material.
AICPA Practice Monitoring Peer Review Programs
2001 Plan of Administration for Associations of CPA Firms

INFORMATION TO BE PROVIDED BY ALL ASSOCIATIONS WHERE THE ASSOCIATION OF CPA FIRMS OR ITS MEMBER FIRMS CONDUCT SEC PRACTICE SECTION PEER REVIEWS OR AICPA PEER REVIEW PROGRAM PEER REVIEWS OF AN ASSOCIATION-MEMBER FIRM

Please read the Guidelines for Associations of CPA Firms contained in the SEC Practice Section Reference Manual and/or in the AICPA Peer Review Program Manual prior to completing this information.

### General Information

1. Name of Association
   Address
   Executive Director
   Telephone Number
   Fax Number
   E-Mail Address

2. PLEASE ENCLOSE A DIRECTORY OR LISTING OF THE ASSOCIATION’S MEMBER FIRMS.

3. DOES THE ASSOCIATION HAVE ANY GENERAL BROCHURES, PAMPHLETS, WEB PAGES, OR ANY MARKETING OR SELLING MATERIALS DEVELOPED BY THE ASSOCIATION? Yes ___ No ___
   (IF “YES,” ENCLOSE A COPY OF THESE MATERIALS THAT HAVE NOT PREVIOUSLY BEEN APPROVED BY AICPA PRACTICE MONITORING.)

4. Please indicate for which program(s) the Association is requesting approval of its Plan of Administration:
   _____ SECPS Peer Review Program   _____ AICPA Peer Review Program
   (Please note that all Associations will be billed an administrative fee of $150 for the acceptance of this Plan of Administration.)

### Independence Requirements

5. Does the Association, as distinct from its member firms, perform any professional services other than those it provides to its member firms or affiliates? Yes ___ No ___

6. Does the Association make any representations (in general brochures, directories, pamphlets, Web Pages or any marketing or selling materials) regarding the quality of professional services performed by its member firms to assist the firms in obtaining engagements? Yes ___ No ___

7. If the answer to question 6 is “yes”, are such representations made by the Association “objective and quantifiable”? Yes ___ No ___ Not applicable ___
   (Please refer to §2000.17, and §2000.142, Questions 12 and 13 of the SEC Practice Section Reference Manual and/or PRP §9100, Guidelines for Associations of CPA Firms in the AICPA Peer Review Program Manual, §9100.03(b) for additional guidance. Also refer to PRP Section 3200.37-.44)

8. If the answer to question 7 is “no”, have you revised the language for such representations so that the independence requirements are met? Yes ___ No ___ Not applicable ___
   (Please note that, if the answer is “no”, your plan cannot be approved until the language has been revised to comply with the independence requirements.)

9. Do the member firms of the Association have a direct or material indirect financial interest in the fees or the profits of each other? Yes ___ No ___ (Correspondent fees are considered revenue, not profit participation.)

---

1 Associations of CPA Firms includes any association, network or alliance of accounting firms. The term also applies to two or more firms or a group of firms (whether a formal or informal group) that jointly market or sell services.
10. Referral or participating work among member firms must be arranged directly by the firms involved and not by the Association. Does the Association arrange any such work? Yes _____ No _____

11. Does the Association exercise any direct or indirect management control over the professional or administrative functions of its member firms or affiliations of member firms? Yes _____ No _____

12. If the answer is "yes" to questions 5, 9, 10 or 11, please briefly explain.

13. Does the Association have any quality control materials? Yes _____ No _____

14. Associations that have quality control materials are required to arrange for an independent review of those materials and the related system of quality control once every three years. Has such a review taken place?

   Yes _____ Please indicate the date of the last review ___________________________

   No _____ Please indicate below why such a review has not taken place.
   Not applicable ___________________________

15a. Please list all associations to which your association has any form of affiliation (e.g., sub-association).

15b. Describe any program, which results in some form of compensation to the parent association.

INFORMATION TO BE PROVIDED BY ASSOCIATIONS REQUESTING AUTHORIZATION TO OVERSEE THE ADMINISTRATION OF ITS MEMBER'S PEER REVIEWS. IF YOUR ASSOCIATION DOES NOT WISH TO OVERSEE SUCH ADMINISTRATION, PLEASE SKIP TO QUESTION 29.

16. Does the Association obtain annual written confirmations regarding correspondent fees from its member firms? Yes _____ No _____ If the answer is "no" please explain how the Association monitors correspondent fees.

17. Does the Association verify that any correspondent work between a reviewed firm and the reviewing firm, or between a reviewed firm and a firm with whom a member of the peer review team is associated, is not material to any of the firms involved? Yes _____ No _____ If the answer is "no", please explain.

18. Describe procedures to determine if reviewers are independent of the reviewed member firms.

7/00
19. Please provide the following information for the person who will oversee the administration of member firm's peer reviews at the Association's office:

<table>
<thead>
<tr>
<th>Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>Telephone Number</td>
</tr>
<tr>
<td>Fax Number</td>
</tr>
<tr>
<td>E-Mail Address</td>
</tr>
</tbody>
</table>

20. Has the Association established a peer review committee to oversee the administration of the peer reviews of its member firms? Yes ____ No ____ If the answer is "yes", please attach a list of the individuals appointed to that committee and the charge of that committee.

21. Please indicate the number of peer reviews the Association anticipates will take place during the year that it is requesting authorization to oversee. (PLEASE ATTACH A LIST OF THOSE MEMBER FIRMS.)

<table>
<thead>
<tr>
<th></th>
<th>On-Site</th>
<th>(System)</th>
</tr>
</thead>
<tbody>
<tr>
<td>SECPS*</td>
<td></td>
<td>PRP**</td>
</tr>
</tbody>
</table>

22. Please indicate, with an X, the primary source the peer reviewers and reviewed firms will consult concerning questions in the following areas:

<table>
<thead>
<tr>
<th>Association Personnel</th>
<th>Association Peer Review Committee Members</th>
<th>AICPA</th>
<th>Applicable State CPA Society</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Accounting and auditing standards?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b. Ethical standards?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>c. Peer review standards?</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(Please note: Peer reviewers of SECPS member firms are required, in certain circumstances to consult with SEC Practice Section staff. Please refer to §12160 of the SEC Practice Section Peer Review Program Manual for a list of such circumstances.)

23. How will disagreements that arise between a reviewed firm and the peer reviewers be resolved?

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

24. Associations overseeing the administration of their member firm's peer reviews are required to have an independent review of their administrative procedures once every three years. Has such a review taken place?

Yes ____ Please indicate date of last review

No ____ Please indicate why such a review has not taken place.

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

25. The association will agree to the following:

a. Comply with the standards for performing and reporting on peer reviews established by the SECPS Peer Review Committee and/or the AICPA Peer Review Board, as applicable, and with the related administrative procedures.

b. Promptly report any unresolved disputes to the entity administering the peer review.

c. Retain the records on peer reviews that must be maintained by the association, including the working papers on peer reviews performed by peer review teams that are appointed by the Association, as long as required under the rules established by the applicable peer review program.

d. Submit the peer review working papers to the entity administering the peer review and to appropriate oversight bodies within the timelines established by the entity administering the review.

*SECPS = SECPS Peer Review Program    **PRP = AICPA Peer Review Program

7/00
26. Has the Association established procedures for making sure that peer reviews performed by association formed peer review teams are performed and reported on in accordance with the applicable peer review programs' standards and guidelines? Yes ___ No ___

If the answer is “yes”, do these procedures include:

a. Pre-issuance review of the peer review working papers? Yes ___ No ___
b. Pre-issuance review of the report and letter of comments and letter of response? Yes ___ No ___
c. Review of the documentation of any consultation matters raised during the peer review? Yes ___ No ___

27. Please provide the following information for the person(s) who will perform the “pre-issuance review” of the peer review working papers:

Name ____________________________________________________________
Telephone Number ________________________________________________
Fax Number _______________________________________________________
E-Mail Address ____________________________________________________

28. The Association will agree to the following:

a. Submit copies of the peer reviewer resume forms for each individual that it may assign to a peer review team to the AICPA for inclusion in the AICPA master bank of peer reviewers, which should be updated on an annual basis.

b. Verify that the peer reviewers possess the appropriate qualifications for service on the peer review team for which they have been selected.

c. Make sure that the applicable administering entities – SEC Practice Section or participating state CPA societies – are advised of the arrangements made for peer reviews prior to the commencement of the peer reviews, including the names of the peer reviewers and the dates the peer reviews will take place, and not to change those arrangements unless authorized by the administering entity.

d. Monitor the peer reviews to make sure the peer review working papers and peer review documents are submitted to the administering entities in accordance with the time frames established by the applicable peer review program.

29. Name (Please Print) ____________________________________________

Signature __________________________________ Date ________________

Title ____________________________________________________________

Please return this form to:

Marie Kallio
American Institute of Certified Public Accountants
AICPA Practice Monitoring
Harborside Financial Center
201 Plaza Three
Jersey City, NJ 07311-3881
Phone: (201) 938-3033
Fax: (201) 521-5436
E-Mail: mkallio@aicpa.org
PRP Section 9200

Guidelines for Performing Administrative Reviews of Associations of CPA Firms

Introduction

.01 An association of CPA firms that is authorized to conduct system, engagement, or report reviews under the AICPA peer review program is required to submit triennially to an independent review of its procedures for overseeing the administration of its peer reviews, and to a review of any association quality control materials. These reviews may be performed concurrently; however, separate reports should be issued.

.02 The objectives of the triennial administrative reviews are to evaluate—

a. Whether the procedures established by the association as outlined in its plan of administration are properly designed and suitably comprehensive to provide the association with reasonable assurance of conforming with the guidelines for associations of CPA firms.

b. Whether the association’s procedures are consistent with the current peer review standards and program guidelines.

c. Whether the association is complying with and appropriately documenting its compliance with those administrative procedures during the period under review.

d. Whether the association is complying with applicable independence requirements.

.03 If an association is authorized to conduct peer reviews of members of the SEC practice section of the AICPA Division for CPA Firms and is required to undergo a triennial review of its administrative procedures in connection with that program, the administrative review performed for that section can satisfy the requirements for an administrative review under the AICPA peer review program, provided the review under the SECPs includes testing of administrative procedures pertaining to peer reviews under the AICPA peer review program.

Qualifications of Reviewers

.04 An association administrative review may be performed by a review team appointed by the AICPA or a participating state CPA society, by a review team formed by a qualified firm, or by a review team sponsored by an association of CPA firms. Reviews of association administrative procedures may not be performed by a member of the association whose procedures are being reviewed. Furthermore, a review may not be performed by a person with a firm that is a member of the association or a person or firm that may have a conflict of interest with respect to the review.

.05 A review team shall possess the same qualifications for system review teams as set forth in the paragraphs 3100.16-.22 of the Standards for Performing and Reporting on Peer Reviews sections entitled "Organization of the Review Team" and "Qualifications for Service as a Reviewer." In addition, associations requested to perform association administrative reviews must adhere to the guidelines contained in PRP section 9100, Guidelines for Associations of CPA Firms in the AICPA Peer Review Program.
Suggested Review Procedures

.06 Appendix A to this section, PRP section 9200.19, includes suggested review procedures for performing administrative reviews of associations of CPA firms. These procedures are general in nature and may not be appropriate for certain associations, such as those associations that do not use materials that constitute "association quality control materials." Therefore, the suggested review procedures should be tailored by the reviewer as the circumstances require. In addition, review procedures must include review of materials published by associations for compliance with independence and objectivity standards.

Reporting on Association Administrative Reviews

The Review Team’s Report

.07 Within thirty days of the date of the exit conference, the association administrative review team should furnish the association with a written report and, if applicable, a letter of comments.

Unmodified Report

.08 An unmodified report issued by an association administrative review team shall contain the following:

a. A statement of the scope of the review

b. A statement that the review was conducted in accordance with the Program for Monitoring Associations of CPA Firms Authorized to Conduct System, Engagement, and Report Reviews Under the AICPA Peer Review Program developed by the Peer Review Board of the American Institute of Certified Public Accountants and the AICPA peer review program’s Guidelines for Associations of CPA Firms in the AICPA Peer Review Program.

c. An opinion (without modification) that the association has complied during the year reviewed with the guidelines established by the Board for associations authorized to conduct system, engagement, and report reviews.

.09 An example of an unmodified report is included in Appendix B, PRP section 9200.20.

Other Types of Reports

.10 The following circumstances ordinarily would require the issuance of a modified report, an adverse report, or a disclaimer:

a. The scope of the review is limited by conditions that preclude the application of one or more review procedures considered necessary.

b. The degree of compliance with the association’s policies and procedures were not sufficient to provide reasonable assurance that the association would conform with the Guidelines for Associations of CPA Firms in the AICPA Peer Review Program.

.11 In those instances in which the review team determines that a modified or adverse report is required, all the reasons should be disclosed in the report and the review team should consult with the AICPA Peer Review Board or its designee prior to the issuance of that report.

Letter of Comments

.12 A letter of comments should be issued in conjunction with the administrative review to report matters that—

a. Resulted in a modified or adverse report.

b. Would result in substantial improvement in the association’s compliance with the guidelines for associations of CPA firms in the AICPA peer review program.
.13 The letter of comments should include—

a. A reference to the report and, if applicable, an indication that the report was modified or adverse.

b. A description of the purpose of the association administrative review.

c. A statement that the review was conducted in accordance with procedures established by the Peer Review Board of the American Institute of Certified Public Accountants.

d. A description of the limitations of the procedures used to arrange and carry out peer reviews.

e. The reviewer's findings, including sufficient detail with respect to the findings so that the association can determine the actions it needs to take, if any, to correct the deficiencies noted.

f. A statement that the matters discussed in the letter were considered in determining the opinion expressed on the administrative review of the association.

.14 If any of the matters to be included in the letter were included in the letter issued in connection with the association's previous administrative review, that fact ordinarily should be noted in the description of the matter. In addition, although not required, the review team may indicate how corrective action might be implemented. The letter may also include comments concerning actions taken, in process, or to be taken by the provider.

.15 If a modified report is issued, the letter must include a separate section on the matters that resulted in the modification. This section would include an elaboration of the findings discussed in the modifying paragraph of the report.

.16 Appendix C, PRP section 9200.21, illustrates how some of the foregoing matters may be covered in a letter of comments.

**Letter of Response**

.17 The association is required to respond in writing to the letter of comments. The response should be addressed to the Board and should describe the action(s) taken or planned with respect to each matter in the letter. If the association disagrees with one or more of the comments, its response should describe the reasons for such disagreement.

.18 When a letter of comments is issued along with a modified or adverse report, the report on the review must make reference to the letter. No reference should be made to the letter of comments in an unmodified report.
.19 Appendix A

Program for Monitoring Associations of CPA Firms Authorized to Conduct System, Engagement, and Report Reviews Under the AICPA Peer Review Program

This program includes suggested review procedures for performing administrative reviews of associations of CPA firms. These procedures are general in nature and may not be appropriate for certain associations, such as those associations that do not use materials that constitute “association quality control materials.” Therefore, the suggested review procedures should be tailored by the reviewer as the circumstances require.

SUGGESTED REVIEW PROCEDURES

I. PLANNING

Obtain the following documents from the AICPA Practice Monitoring Staff.

a. The association’s most recent plan of administration. _______ _______
b. The Peer Review Board’s letter accepting the association’s plan of administration. _______ _______
c. The latest report on the review of the association’s quality control materials, the letter of comments, if any, and the association’s response thereto. _______ _______
d. Summary information on peer reviews administered by the association, including number of reviews conducted and types of reports issued. _______ _______
e. Any questions raised by the staff concerning the association’s compliance with the peer review standards. _______ _______

II. TESTING

A. Independence

1. Based on reading the association’s charter, bylaws, publications, and independence confirmations and marketing materials on behalf of the association or its members, and on inquiry of the association’s executive director, determine that the association and its member firms are complying with the following criteria for independence:

a. The association, as distinct from its member firms, does not perform any professional services other than those it provides to its member firms or affiliates. (For purposes of this requirement “professional services” include accounting, tax, personal financial planning, litigation support services and the professional services for which standards are promulgated by bodies designated by AICPA Council, such as Statements on Auditing Standards and Statements on Standards for Attestation Engagements.) _______ _______
b. The association does not obtain or attempt to obtain professional engagements for its member firms. (This includes advertising for the purpose, expressed or implied, of obtaining professional engagements for its member firms. However, the association may respond to inquiries and prepare brochures that individual firms, not the association, may use to obtain professional engagements.) _______ _______
SUGGESTED REVIEW PROCEDURES

1. The association does not make representations regarding the quality of professional services performed by its member firms to assist member firms in obtaining engagements, unless the representations are objective or quantifiable. However, member firms may independently publicize their membership in the association. In addition, an association may respond to inquiries and prepare promotional materials that firms may use to obtain professional engagements on their own behalf.

2. Member firms of the association do not have a direct or material indirect financial interest in the fees or profits of each other.

3. Referral or participation work among member firms is arranged directly by the firms involved.

4. The association does not exercise any direct or indirect management control over the professional or administrative functions of its member firms.

Evaluate whether the results of the above tests or inquiries are consistent with the information contained in the plan of administration submitted to the Peer Review Board.

B. Association Quality Control Materials

1. Inquire whether the association has identified any materials that constitute association quality control materials as defined in PRP section 9100.08 of the AICPA Peer Review Program Manual.

2. Determine whether:
   a. A review of the system of quality control for the materials in B.1. above was conducted by an individual possessing the prerequisite qualifications.
   b. The report on the review identifies all the types of materials that comprise the association’s quality control materials.
   c. The report has been made available to member firms and their reviewers and relied upon during the performance of association-administered peer reviews.

3. If a letter of comments was issued in connection with the latest review, determine whether appropriate corrective action(s) have been taken.

4. Inquire whether significant changes have been made in the system for developing quality control materials since the last review. If so:
   a. Inquire whether the changes have been independently evaluated for appropriateness on a timely basis, whether there has been a test of the documentation evidencing compliance with the system, and whether a report has been issued.
   b. If the answer to 4.a. is “no,” evaluate the appropriateness of the reasons.
   c. Determine whether the changes in the quality control system have been reported in the updated plan(s) filed with the Board.
SUGGESTED REVIEW PROCEDURES

C. Plan of Administration and Its Annual Renewal

1. Determine whether all the amendments requested by the Board in its acceptance of the association’s most recent plan have been adopted.

2. Determine whether the plan and the association's procedures have been appropriately amended on a timely basis to reflect any new requirements resulting from revisions in the peer review standards and guidelines since the most recent plan was filed.

3. Determine whether any new procedures adopted by the association since the Board’s acceptance of the current plan are consistent with the peer review standards and guidelines.

4. Determine whether the association has obtained confirmations from member firms concerning fees for correspondent work.

D. Qualifications for a Reviewer or a Reviewing Firm

Determine whether the qualifications for the reviewers outlined in paragraphs 3100.15-3100.22 of the peer review standards have been met and whether appropriate procedures have been followed by the association to ensure that sufficient attention was given to the following requirements.

1. Establishing and maintaining a pool of qualified and trained reviewers.

2. Assigning competent and appropriate reviewers in relation to the specific needs of reviewed firms.

3. Assigning a majority of the review team members, including the team captain, from association member firms.

4. Evaluating the performance of the reviewers.

5. Maintaining the reviewers' independence considering:
   a. The prohibition against reciprocal reviews.
   b. The prohibition against material amounts of fees for correspondent work.
   c. The independence and conflict of interest interpretations.

E. Procedures Performed

1. Determine whether there are established procedures for ensuring that peer reviews are performed and reported on in accordance with the applicable peer review programs' standards and guidelines, which might include:
   a. Pre-issuance review of the peer review working papers.
   b. Pre-issuance review of the report and letter of comments.
   c. Review of the documentation of any consultation matters raised during the peer review.
III. CONCLUSIONS

1. Based on the procedures performed:
   
   a. Are the administrative procedures appropriately designed and suitably comprehensive to provide the association with reasonable assurance of conforming with the guidelines?

   b. Are the procedures established by the association for overseeing the administration of peer reviews in conformity with the latest peer review standards and guidelines for associations of CPA firms?

   c. Has the association complied with and appropriately documented its compliance with its procedures for overseeing the administration of the AICPA’s peer review program during the period under review?

   2. Discuss your findings and conclusions with the officials of the association. (There is no need to prepare a formal memorandum unless there is a significant weakness.)

   3. Issue the report and letter of comments, if any, on the results of the review, to the association.

   4. Submit a copy of the report and letter of comments to the AICPA Practice Monitoring along with all of the working papers on the review.
Appendix B

Sample Unmodified Report

[State CPA society or firm letterhead]  

May 15, 20__

Executive Committee  
XYZ Association

We have reviewed the procedures of XYZ Association in effect for the year ended December 31, 20__, for conducting [system, engagement, and report] reviews for association-member firms under the authorization of the Peer Review Board of the American Institute of Certified Public Accountants. Our review was conducted in accordance with the Program for Monitoring Associations of CPA Firms Authorized to Conduct System, Engagement, and Report Reviews Under the AICPA Peer Review Program and included tests of the association’s compliance with the “Guidelines for Associations of CPA Firms in the AICPA Peer Review Program.”

In our opinion, the procedures of XYZ Association in effect for the year ended December 31, 20__, met the objectives of the “Guidelines for Associations of CPA Firms in the AICPA Peer Review Program” and were being complied with during the year then ended to provide the Board with reasonable assurance that [System, Engagement, and Report] reviews are conducted in a manner consistent with the AICPA peer review standards.

John Doe, Team Captain  
[or Name of Reviewing Firm]

Tailor as applicable.
Appendix C

Sample Letter of Comments

[State CPA society or firm letterhead]  
May 15, 20___  
[Date Should Correspond With the Date of the Report]

Executive Committee  
XYZ Association

We have reviewed the procedures of XYZ Association in effect for the year ended December 31, 20___, for conducting [system, engagement, and report] reviews for association-member firms under the authorization of the Peer Review Board of the American Institute of Certified Public Accountants and have issued our report thereon dated May 15, 20___. This letter should be read in conjunction with that report.

Our review was for the purpose of reporting on your administrative procedures and your compliance with them. Our review was conducted in accordance with the Program for Monitoring Associations of CPA Firms Authorized to Conduct System, Engagement, and Report Reviews Under the AICPA Peer Review Program developed by the Peer Review Board. Our review would not necessarily disclose all weaknesses in your procedures or instances of noncompliance with them because our review was based on selective tests.

There are inherent limitations that should be recognized in considering the potential effectiveness of the procedures used to conduct peer reviews. In the performance of most procedures, departures can result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personal factors. Projection of any evaluation of these administrative procedures to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate. As a result of our review, we have the following comments:

[Falling would be a description of—

• Matters that resulted in a modified or adverse report.

• Matters that would result in substantial improvement in the association’s compliance with the guidelines for associations of CPA firms in the AICPA Peer Review Program.]

The foregoing matters were considered in determining our opinion set forth in our report dated May 15, 20___ and this letter does not change that report.

John Doe, Team Captain  
[or Name of Reviewing Firm]

[The next page is 10,001.]

* Tailor as applicable.
PRP Section 10,000
Monitoring Guidance

Notice to Readers
This guide has been developed by the AICPA Peer Review Board to assist firms in achieving the benefits to be derived from an effective monitoring program. It is not intended to, and does not, establish standards for the performance of monitoring procedures.

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PRP Section 10,000
Monitoring Guidance

Introduction

.01 Statement on Quality Control Standards (SQCS) No. 2, System of Quality Control for A CPA Firm’s Accounting and Auditing Practice, requires every CPA firm, regardless of its size, to have a system of quality control for its accounting and auditing practice. The statement can be found in AICPA Professional Standards, vol. 2, QC sec. 20.

.02 SQCS No. 2 identifies five elements of quality control and states that a firm should consider each of these elements, to the extent applicable to its practice, in establishing its quality control policies and procedures. The statement recognizes that the nature and extent of a firm’s quality control policies and procedures depend on a number of factors, such as its size, the degree of operating autonomy allowed its personnel and its practice offices, the nature of its practice and its organization, and appropriate cost-benefit considerations.

.03 One of the five elements of quality control is monitoring which is further discussed in SQCS No. 3, Monitoring a CPA Firm’s Accounting and Auditing Practice (AICPA Professional Standards, vol. 2, QC sec. 30). This monitoring guide has been developed to assist firms in achieving the benefit to be derived from effective monitoring procedures. It is not intended to, and does not, establish standards for monitoring.

.04 The AICPA Joint Task Force on Quality Control Standards has developed a Guide for Establishing and Maintaining a System of Quality Control for a CPA Firm’s Accounting and Auditing Practice. The guide presents the task force’s recommendations on applying SQCS Nos. 2 and 3. It provides examples of policies and procedures a firm should consider implementing for each of the five elements of quality control, using four hypothetical firms ranging in size from a large national firm to a sole practitioner who performs no audits. The guide is included in the AICPA Audit and Accounting Manual (AAM section 11,200). It can also be purchased as a separate booklet.

Objective of Monitoring

.05 The objective of the monitoring element of a system of quality control is to provide the firm with reasonable assurance that the policies and procedures established by the firm for each of the other elements of quality control are suitably designed and are being effectively applied. Monitoring involves an ongoing consideration and evaluation of the—

a. Relevance and adequacy of the firm’s policies and procedures.

b. Appropriateness of the firm’s guidance materials and any practice aids.

c. Effectiveness of the firm’s professional development activities.

d. Firm’s compliance with its policies and procedures.

.06 When performing its monitoring procedures, the firm may wish to expand its testing to accomplish additional objectives, such as evaluating engagement efficiency, training supervisory staff to effectively review engagements, or testing compliance with requirements of membership organizations or regulatory bodies.
Timing of Monitoring Procedures

.07 Monitoring procedures should be performed on an ongoing basis throughout the year. However, the firm may choose to evaluate compliance with its policies and procedures at a fixed time during the year or through a combination of fixed and ongoing procedures and still effectively comply with the monitoring element of quality control. If compliance testing is performed at one or more fixed points during the year, then the point(s) should be selected so that any necessary corrective actions, especially actions that affect the performance of subsequent accounting or auditing engagements, can be implemented before an identified deficiency is repeated on the next year’s engagement.

Relationship of Inspection to Monitoring

.08 Monitoring is an ongoing consideration and evaluation of the relevance and adequacy of the firm’s policies and procedures, appropriateness of its guidance materials and any practice aids, effectiveness of professional development activities, and compliance with the firm’s policies and procedures. In contrast, inspection is a retrospective evaluation at a fixed point in time of the adequacy of the firm’s quality control policies and procedures, its personnel’s understanding of those policies and procedures, and the extent of the firm’s compliance with them. Monitoring procedures provide the firm with a means of identifying and communicating circumstances that may necessitate changes to its system of quality control or the need to improve compliance with that system. Although monitoring procedures are meant to be ongoing, they may include inspection procedures performed at a fixed point in time. Monitoring is a broad concept while inspection is one specific type of monitoring procedure.

.09 The quality control standards do not require that inspection procedures be performed if other types of effective monitoring procedures exist. As a practical matter, however, most firms will need to perform some type of inspection procedures. Paragraph 6 of SQCS No. 3 states that inspection procedures are “appropriate in a firm with more than a limited number of management-level individuals responsible for the conduct of its accounting and auditing practice.” A firm that contemplates not performing an inspection is urged to discuss the matter with its peer reviewer, the AICPA Practice-Monitoring staff, or both to determine in advance that its monitoring procedures will be appropriate.

Determination of Who Should Perform Monitoring Procedures

.10 The assignment of individuals to perform monitoring procedures should be made with the same due care that would be used in assigning personnel to an accounting or auditing engagement. In making such assignments, the firm should emphasize the important nature of the assignment. The importance placed on monitoring will determine the benefits the firm derives.

.11 Depending on the size of a firm, the nature of its practice, and other environmental factors, monitoring procedures may be performed by one individual or by a group of individuals. In either case, the primary responsibility for monitoring should be assigned to a partner of the firm. This person may delegate part or all of the testing procedures.

.12 In assigning monitoring tasks, consideration should be given to the degree of technical training and proficiency required of the individual in the circumstances. Some administrative procedures can be performed by nonprofessional staff, but only qualified professional personnel who are knowledgeable in accounting and auditing matters should be involved in the review of engagements. Review of engagements, therefore, should be carried out by persons who have appropriate background and experience. They should be supervised by individuals with authority in the firm to be objectively critical when necessary.

1 Depending on how a CPA firm is legally organized, its owner(s) could have other names, such as “shareholder” or “proprietor.” For purposes of this document, the term “partner” is used to describe a firm’s owner.
Monitoring Guidance

.13 Individuals assigned to perform monitoring procedures should be objective when performing such tasks. The individual assigned to review an engagement ordinarily should not be associated with the performance of that engagement and should be a partner or management-level individual (or a qualified individual under his or her supervision).

.14 In a small firm with a limited number of partners or management-level individuals, monitoring procedures may have to be performed by some of the same individuals who are responsible for compliance with the firm’s quality control policies and procedures, including the performance of engagements. To effectively monitor one’s own compliance with the firm’s policies and procedures, an individual must be able to critically review his or her own performance, assess his or her own strengths and weaknesses, and maintain an attitude of continual improvement. Changes in the condition or environment of the firm (such as obtaining a client in an industry not previously serviced or a significant change in the size of the firm) may indicate the need to have quality control policies and procedures monitored by another qualified individual.

.15 An individual inspecting his or her own compliance with a system of quality control may be inherently less effective than having such compliance inspected by another qualified individual. When an individual inspects his or her own compliance, the firm may have a higher risk that noncompliance with policies and procedures will not be detected. Accordingly, a firm in this circumstance may find it beneficial to engage a qualified individual from outside the firm to perform inspection procedures. Unlike peer reviews, monitoring procedures may be performed on a reciprocal basis since independence is not an issue.

.16 If a firm decides to have someone from outside the firm perform some or all of its inspection procedures, it should consider the qualifications discussed above in making the selection of the individual(s). In such circumstances, a partner of the firm should be given responsibility for coordinating the inspection efforts and ensuring that all appropriate steps are taken, including determining whether necessary corrective actions are taken.

.17 Engagement review procedures performed under professional standards by the audit partner and others on the audit team, such as Statement on Auditing Standards (SAS) No. 22, Planning and Supervision (AICPA Professional Standards, vol. 1, AU sec. 311), do not qualify as a preissuance review for monitoring purposes. The concurring partner review on an SEC engagement performed to comply with the concurring review membership requirement of the SEC Practice Section may constitute part of a firm’s preissuance review procedures provided that the firm has a mechanism in place to monitor the adherence to membership requirements, for example the qualifications of the reviewer, the nature, extent, and timing of the review procedures performed, and the documentation required to evidence compliance with the firm’s policies and procedures with respect to the concurring review requirement. In situations where the concurring partner review on SEC engagements is utilized as part of the firm’s preissuance review procedures, the concurring partner review must be comprehensive enough to cover the critical and significant portions of the audit and will therefore exceed that necessitated by the SECPS membership requirement.

How to Monitor

Evaluate Relevance and Adequacy of Firm’s Quality Control Policies and Procedures

.18 The firm should consider and evaluate, on an ongoing basis, the relevance and adequacy of its quality control policies and procedures. This can be accomplished by assigning a partner or management-level individual with appropriate authority to be responsible for—

a. Assuring the firm’s polices and procedures and its methodology for its accounting and auditing practice remain relevant and adequate. The evaluation of the firm’s policies and procedures should be performed on a continual, ongoing basis. Therefore, the occurrence of an event such as a change
in professional standards or a change in the nature of the firm's practice should trigger an evaluation by the assigned individual of whether the firm's policies and procedures need to be revised. Factors to consider include—

• Mergers and divestitures of portions of the practice.
• Changes in professional standards or other regulatory requirements applicable to the firm's practice.
• Results of annual inspections or peer reviews.
• Review of litigation and regulatory enforcement actions against the firm and others.
• Impact that changes in technology may have on clients' methods of doing business.
• Changes in clients' industries that impact their operations.
• Changes in applicable AICPA membership requirements.

b. Determining whether personnel have been appropriately informed of their responsibilities for maintaining the firm's standards of quality in performing their duties.

c. Identifying the need to revise policies and procedures related to the other elements of quality control because they are ineffective or inappropriately designed due to changes in professional standards or the nature of the firm's practice.

d. Identifying the need to improve compliance with firm policies and procedures that are related to the other elements of quality control.

Evaluate Appropriateness of Firm's Guidance Materials and Practice Aids

.19 The firm should consider and evaluate, on an ongoing basis, the appropriateness of its technical guidance materials and any practice aids (such as audit programs, forms and checklists). This can be accomplished by assigning a partner or management-level individual with appropriate authority to be responsible for—

a. Reviewing and evaluating the appropriateness of the firm's guidance materials and practice aids (such as audit programs, forms, and checklists) based on the issuance of new professional pronouncements. This means every time a new professional pronouncement is issued, the firm should determine whether its materials and aids need to be revised. If the firm purchases its technical guidance materials and practice aids from an outside vendor, it should appropriately tailor the third-party materials to the nature of its accounting and auditing practice and system of quality control. In addition, the firm should obtain from the third-party provider a copy of the peer review report on the materials and aids.

b. Providing guidance to all professional personnel regarding new professional standards, new regulatory requirements, and related changes to the firm's practice aids. Although this guidance can be provided through written communications, for a small firm face-to-face discussions at staff meetings may be an effective means because such meetings allow for immediate clarification and resolution of any questions.

Evaluate Effectiveness of Firm's Professional Development Activities

.20 The firm should consider and evaluate, on an ongoing basis, the effectiveness of its professional development programs. This can be accomplished by assigning a partner or management-level individual with appropriate authority to be responsible for—

a. Reviewing the firm's professional development policies and procedures to determine whether they are appropriate, effective, and meet the needs of the firm given the nature of its practice.
b. Reviewing the firm’s continuing professional education (CPE) records for its personnel to determine their compliance with the CPE requirements of the AICPA and other regulatory bodies. For example, if the firm performs governmental audits, the firm should make sure engagement personnel meet the Yellow Book CPE requirements before the audits are performed.

c. Soliciting information from the firm’s personnel regarding the effectiveness of the training programs they have attended, regardless of whether such programs were conducted internal to the firm or external to the firm, or by self study or classroom study. For a small firm, face-to-face discussions at staff meetings may be the most efficient way to obtain such feedback.

d. Considering the results of the firm’s engagement reviews in connection with the effectiveness of the firm’s professional development program.

e. Ascertaining whether inquiries received by individuals consulted within the firm indicate the need for additional CPE programs.

Evaluate Firm’s Compliance With Its Quality Control Policies and Procedures

.21 The firm should consider and evaluate its compliance with its quality control policies and procedures. This can be accomplished by assigning a partner or management-level individual with appropriate authority to be responsible for supervising the performance of procedures at the broad functional element level and engagement level to determine whether the firm complies with its quality control policies and procedures and professional standards. The firm should, based on the nature of its practice and the composition of its personnel, assess how best to evaluate compliance with its quality control policies and procedures and design its system accordingly. Two methods are primarily available for evaluating the firm’s compliance with its quality control policies and procedures and with professional standards at the engagement level—

a. Periodic inspection at a fixed point in time.

or

b. On-going review through preissuance or postissuance review.

Appendixes A and B contain checklists for coordinating, respectively, an inspection program and a preissuance review program.

.22 When determining whether to perform compliance testing at a fixed time(s) during the year covering a specified period(s) of time (inspection), as part of ongoing quality control procedures (preissuance or postissuance review), or a combination thereof, the firm should consider the following factors—

a. The nature, complexity, and diversity of—and the risks associated with—the firm’s practice.

b. The firm’s size, number of offices, degree of authority allowed its personnel and its offices, and organizational structure.

c. The results of recent practice reviews and previous monitoring procedures.

d. Appropriate cost-benefit considerations.

.23 Paragraphs 4 through 7 of SQCS No. 3 discuss periodic inspection of engagements at a fixed point in time and paragraphs 8 and 9 of that standard discuss ongoing review of engagements through preissuance or postissuance review. Either method or any combination thereof, if planned and implemented correctly, can accomplish the objective of evaluating compliance with the firm’s quality control policies and procedures.

---

2 Practice reviews include, but are not limited to, peer reviews performed under standards established by the AICPA, and reviews conducted by the Quality Control Inquiry Committee and by regulatory agencies such as the SEC.

3 Although appropriate cost-benefit considerations may be considered in determining the need for and extent of monitoring procedures, a firm must still effectively monitor its practice.
at the engagement level. When deciding how to test compliance at the engagement level, the firm should consider time pressures such as report due dates and time budgets. The firm may want to consult the Guide for Establishing and Maintaining a System of Quality Control for a CPA Firm’s Accounting and Auditing Practice mentioned earlier for illustrative policies and procedures that various size firms should consider implementing for evaluating compliance with its quality control policies and procedures.

.24 Regardless of how a firm tests engagement compliance, the scope of its engagement review should be planned at least annually. For an on-going review of engagements that plan should be reevaluated throughout the year as circumstances necessitate. The planning should include a preliminary selection of engagements for review and that selection re-evaluated and adjusted throughout the year as circumstances change.

.25 The percentage of engagements reviewed should, at a minimum, be comparable to that of a peer review and the type of engagements reviewed should represent a reasonable cross-section of the firm’s accounting and auditing practice using the following criteria:

a. Specialized industries with emphasis given to high risk engagements
b. First year engagements
c. Level of service performed (audit, agreed-upon procedures under auditing standards, review, compilation with disclosures, compilation without disclosures, and engagements performed under the attest standards)
d. An appropriate cross section of the firm’s auditing and accounting partners
e. SEC registrants

.26 A preissuance or postissuance engagement review, except as discussed in paragraph .27, may be considered a part of the firm’s monitoring procedures provided that the individual performing or supervising the review is not a member of the engagement team on the particular engagement he or she reviews. Such a preissuance or postissuance review may constitute inspection procedures provided the following criteria are met:

a. The review is sufficiently comprehensive to enable the firm to assess compliance with all applicable professional standards and the firm’s quality control policies and procedures.
b. Engagement deficiencies that may indicate the need to improve compliance with or modify the firm’s quality control policies and procedures are periodically summarized, documented, and communicated to the firm’s management personnel having the responsibility and authority to make changes in those policies and procedures.
c. The firm’s management personnel consider on a timely basis the systemic causes of the engagement deficiencies that indicate improvements are needed and determine appropriate actions to be taken.
d. The firm implements on a timely basis such planned actions, communicates changes to personnel who might be affected, and follows up to determine that the planned actions were taken.

.27 In a small firm with a limited number of qualified management-level individuals, a postissuance review of engagement working papers, reports, and clients’ financial statements by the person with final responsibility for the engagement may constitute an inspection procedure provided the four criteria listed in .26(a)-(d) are met. For firms in the SECPS program, the preissuance and post issuance review should be as comprehensive as a review performed during an inspection as discussed in section 18,200.22–.30 of the SEC Practice Section Peer Review Program Manual.

.28 Although the firm cannot substitute its peer review for its monitoring procedures, it may substitute its peer review for some or all of its inspection procedures in the year of its peer review, provided its policies and procedures require the performance of inspection procedures to evaluate compliance with its quality control policies and procedures and permits the substitution. In such a case, the firm would not need to review
any engagements during the year of its peer review. The firm would, however, still need to monitor its system of quality control by evaluating the relevance and adequacy of its quality control policies and procedures, appropriateness of its guidance materials and practice aids, and compliance with professional development activities.

.29 If the firm performs inspection procedures during the year of its peer review, it may want to consider the scope of its inspection procedures in relationship to the scope of its peer review. In such a situation, the firm may want to tailor the scope of its inspection to complement the scope of its peer review rather than duplicate it.

.30 If the firm performs inspection procedures during the year of its peer review and wants its peer reviewer to use those inspection procedures to reduce the number of offices visited or engagements reviewed, or the extent of the functional areas reviewed on the peer review, then the reviewer will have to test the effectiveness of the current year’s inspection procedures. This testing entails the peer reviewer reperforming the review of a sample of engagements previously inspected by the firm.

.31 Although the firm can substitute its peer review for its inspection procedures in the year of its peer review, this does not alleviate the peer reviewer from having to evaluate the firm’s inspection procedures since inspection has been designed as part of the firm’s monitoring process. Because no inspection procedures were performed in the year of the peer review for the peer reviewer to evaluate, the reviewer will have to review the inspection procedures performed during the two years between peer reviews.

.32 When a firm performs inspection procedures to evaluate compliance with its quality control policies and procedures, its system of quality control is tested at the broad functional element level through review of administrative files and at the individual engagement level through review of selected accounting and auditing engagements. Any deficiencies noted at the two levels are combined at the end of the inspection and analyzed for systemic causes. Likewise, when a firm uses preissuance or postissuance reviews to evaluate compliance with its quality control policies and procedures, the firm should test its system at the broad functional element level as well as at the engagement level and the deficiencies noted at the two levels combined and analyzed for systemic trends. Therefore, the firm should review its system of quality control as a whole for—

a. Documentation regarding consultation on independence, integrity and objectivity matters, and acceptance and continuance decisions.

b. Resolution of matters reported by professional personnel on independence, integrity, and objectivity circularization forms to determine that matters have been appropriately considered and resolved.

c. Other consultation on accounting and auditing matters.

Appendix C contains a checklist for reviewing the broad functional elements.

.33 The firm, as part of its monitoring procedures, may want to test compliance with the membership requirements of the various organizations to which it or its members belong—the AICPA, state CPA societies, and SECPSt—even though this is not required by quality control standards. As a practical matter, many of these membership requirements are covered by the firm’s quality control policies and procedures and are tested during other phases of monitoring. For example, compliance with the CPE requirements of the AICPA, SECPs, and state boards of accountancy will be tested when the firm evaluates effectiveness of professional development activities. Appendix D contains a checklist for reviewing SECPs membership requirements.

.34 If the firm acquires an accounting and auditing practice through a merger or acquisition, the monitoring of that merged or acquired practice should begin immediately. In other words, if the firm primarily monitors its accounting and auditing practice through annual inspection procedures, then the firm
should not wait until the performance of the next annual inspection before it begins to monitor the merged or acquired accounting and auditing practice. This monitoring should cover merged or acquired personnel as well as engagements. One way to accomplish the timely monitoring of a merged or acquired accounting and auditing practice is to assign an experienced partner or management-level individual associated with the firm prior to the new acquisition to perform a preissuance review of the reports, financial statements, and working papers on some or all of the merged or acquired accounting and auditing engagements. In addition, the firm should implement procedures to ensure personnel from the merger or acquisition are trained in the firm’s policies and procedures for accounting and auditing engagements and, where necessary, professional standards.

**Summarize Monitoring Results**

.35 All of the deficiencies noted during monitoring procedures, not just those noted through engagement review, should be periodically summarized in a manner that will enable the firm to determine what actions, if any, are necessary to prevent the recurrence of the deficiencies in the future. Firms may use the Summary of Matter For Further Consideration Forms from the AICPA Peer Review Program Manual (PRP section 4900) for summarizing the deficiencies noted during monitoring. Other firms scan the deficiencies and summarize them informally; this is common when the number of engagements reviewed is small or the number of deficiencies is minimal.

.36 Each deficiency should be considered in conjunction with the other deficiencies noted during the monitoring procedures for implications to the firm’s system of quality control as a whole. For example, on an engagement a minor disclosure may have been omitted that results in a note to the file reminding the engagement personnel to make sure that the disclosure is considered in the subsequent financial statements. However, if the deficiency is noted on several engagements, corrective action may also be needed on a firm-wide basis to prevent the recurrence of the deficiencies.

.37 When summarizing the monitoring deficiencies, they should be organized, to the extent possible, according to the systemic cause(s) to assist in the determination of appropriate corrective action(s).

**Prepare Written Summary Report of Monitoring Results**

.38 After summarization of the deficiencies noted during the monitoring procedures, a written summary report should be prepared of the deficiencies noted and submitted to the appropriate partner(s) of the firm. Appendix E contains a sample summary report for documenting the firm’s monitoring procedures.

**Determine Necessary Corrective Actions**

.39 After preparation of the summary report, the appropriate partner(s) of the firm should review the written report and evaluate what corrective actions, if any, should be taken in connection with the monitoring results to prevent the recurrence of the deficiencies in the future. A record should be maintained of the corrective actions and improvements planned by the firm to address the deficiencies noted during monitoring and appropriate personnel should be assigned the responsibility for implementing the corrective actions. Corrective actions can include—

a. Additional staff training in specific areas or industries.

b. Changes in the firm’s quality control policies and procedures.

c. Updates or additions to technical manuals and practice aids.

d. More careful monitoring of compliance with policies and procedures.

e. Appropriate corrective actions on specific engagement deficiencies.

f. Changes in staff assignments.
Communicate Monitoring Results

.40 After the necessary corrective actions have been decided, the monitoring results and the changes being made as a consequence of those results should be communicated orally or in writing to appropriate professional personnel of the firm.

Follow-Up on Planned Corrective Actions

.41 Timely and effective follow-up on the steps taken to implement planned corrective actions is critical to effective monitoring. Within a reasonable period of time after the firm was scheduled to take the planned corrective actions, steps should be taken to determine whether the planned corrective actions have been acted upon and whether they have achieved the objectives for which they were designed.

Documentation of Monitoring

.42 As required by paragraph 25 of SQCS No. 2, the firm should prepare appropriate documentation to demonstrate compliance with its policies and procedures for the quality control element of monitoring. At a minimum, a written report should be prepared on the scope of the monitoring procedures, the results of the monitoring procedures, and the corrective actions the firm plans to take. For multi-office firms, generally a separate report should be prepared for each office.

.43 The firm should determine the period that detailed monitoring working papers should be retained. Retention may be necessary if the firm intends to use inspection procedures performed in the year of its peer review to reduce the scope of its peer review. (Typically, due to cost/benefit considerations, the reviewers of a small firm will not place reliance on inspection procedures in order to reduce the scope of the peer review.) It is recommended that detailed monitoring working papers be discarded after a summary report has been prepared. However, if in the year of its peer review the firm uses its inspection procedures to reduce the scope of its peer review, detailed inspection working papers should not be discarded until the peer reviewer has had an opportunity to test the inspection procedures.

.44 The summary monitoring report should be retained and available to the peer reviewer for each year since the prior peer review. Once the peer reviewer has reviewed the summary monitoring reports, the reports can be discarded.
Appendix A
Checklist for Coordinating an Inspection Program

<table>
<thead>
<tr>
<th></th>
<th>Initial</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Determine who will coordinate the inspection program for the firm.</td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>Determine who will perform the inspection.</td>
<td></td>
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<tr>
<td>3.</td>
<td>Establish the approach and timetable for performing the inspection procedures.</td>
<td></td>
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<tr>
<td>4.</td>
<td>Determine forms and checklists to be used during the inspection and the extent of documentation required.</td>
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<tr>
<td>5.</td>
<td>Decide how long to retain detail inspection working papers.</td>
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<tr>
<td>6.</td>
<td>Make a selection of engagements for review and reevaluate that selection throughout the process.</td>
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<tr>
<td>7.</td>
<td>Review other files for compliance with the firm’s quality control policies and procedures. (Appendix C)</td>
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<tr>
<td>8.</td>
<td>Review the selected engagements.</td>
<td></td>
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<tr>
<td>9.</td>
<td>Summarize the inspection findings and determine what corrective actions should be taken.</td>
<td></td>
</tr>
<tr>
<td>10.</td>
<td>Prepare an inspection report covering the scope of the inspection, the inspection findings, and the recommended corrective actions. (Appendix E)</td>
<td></td>
</tr>
<tr>
<td>11.</td>
<td>Review the recommended corrective actions and reach final conclusions on the actions to be taken.</td>
<td></td>
</tr>
<tr>
<td>12.</td>
<td>Communicate the inspection findings and the planned corrective actions to the appropriate members of the firm.</td>
<td></td>
</tr>
<tr>
<td>13.</td>
<td>Follow up on planned corrective actions to determine whether the actions were taken as planned and whether they achieved the objective(s) for which they were planned.</td>
<td></td>
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</tbody>
</table>
Appendix B
Checklist for Coordinating a Preissuance Review Program

1. Determine who will coordinate the preissuance review program for the firm.

2. Determine who will perform preissuance reviews and designate alternates. (The individual can not be directly associated with the performance of the particular engagement he or she reviews).

3. Establish the approach for performing preissuance reviews (i.e., comprehensiveness of review, etc.) and the time period for summarizing findings (i.e., monthly, quarterly, etc.). (The comprehensiveness of the review must be similar to that performed on an inspection or peer review.)

4. Determine forms and checklists to be used during the engagement and functional element reviews and the extent of documentation required.

5. Decide how long to retain detail monitoring working papers.

6. Make a selection at the beginning of the monitoring year of engagements to be preissuance reviewed and reevaluate that selection throughout the year as circumstances dictate.

7. Review the selected engagements before issuance.

8. Immediately after an engagement review, communicate any specific findings on that particular engagement to the appropriate professional staff who performed the engagement.

9. Review other files for compliance with the firm's quality control policies and procedures. (Appendix C) (Steps 9 through 14 should be performed for each time period established in step 3 above.)

10. Summarize the engagement and functional element review findings and determine what corrective actions should be taken. Determine if any correlation exists between engagement and functional element review findings.

11. Prepare a summary monitoring report covering the scope of the engagement and functional element reviews, the review findings, and the recommended corrective actions. (Appendix E)

12. Review the recommended corrective actions and reach final conclusions on the actions to be taken.

13. Communicate the summarized review findings and the planned corrective actions to the appropriate members of the firm.

14. Follow up on planned corrective actions to determine whether the actions were taken as planned and whether they achieved the objective(s) for which they were planned.

* In order for preissuance review to qualify as a monitoring procedure the individual performing or supervising the review must not be directly associated with the performance of the engagement. In addition, for preissuance review to constitute inspection procedures the four criteria listed in paragraph 8 of SQCS No. 3 must be met.
Appendix C

Checklist for Review of Functional Elements

Period Covered __________________________

<table>
<thead>
<tr>
<th>Findings, Including</th>
<th>Extent of Testing</th>
<th>Done By</th>
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</thead>
</table>

**Independence, Integrity, and Objectivity**

1. Select a sample of situations in which independence, integrity, and objectivity questions arose during the period and consider whether the resolution of such questions appears appropriate.

2. Select a sample of professional personnel and review the written representations obtained by the firm regarding independence, integrity, and objectivity, if required by firm policy.

3. Interview selected staff, review appropriate documentation, and determine whether the firm has advised all professional personnel on a timely basis about entities to which the independence, integrity, and objectivity rules apply and that professional personnel are familiar with the firm’s independence, integrity, and objectivity policies and procedures.

**Engagement Performance**

1. Inspect the firm’s library for its audit and accounting practice and determine whether it is sufficiently comprehensive and current. Specifically determine that the library includes recent pronouncements and literature appropriate for the firm’s specialties and are updated on a timely basis.

2. Select a sample of situations in which consultations took place during the period and determine through inquiry or review of appropriate files whether all relevant facts and circumstances were provided to the party consulted, the advice given appears reasonable, and the actions taken were consistent with professional standards and firm policies.

**Personnel Management**

1. Select a sample of new hires and determine through review of their personnel files whether—
   a. The background information and other documentation required by firm policy were obtained.
   b. The individuals possessed the desired attributes, achievements, and experience required by the firm and, if not, why an exception was made.

2. Interview selected staff and determine whether they believe they had the technical training and proficiency required to perform the assignments received.

3. Select a sample of professional personnel and determine through review of their personnel files whether they have been evaluated and promoted in accordance with the firm’s policies and procedures.
Acceptance and Continuance of Clients and Engagements

1. Select a sample of acceptance and continuance decisions and determine through review of appropriate documentation whether the firm is complying with its policies and procedures and with the requirements of professional standards.

Monitoring

1. Determine whether appropriate corrective actions were taken, including effective follow-up, with respect to the prior period’s monitoring findings.

2. Review the firm’s quality control policies and procedures and determine whether they are relevant and adequate.

3. Review the firm’s guidance materials and any practice aids and determine whether they are up-to-date.

4. Select a sample of professional personnel and determine through review of their CPE records whether they—
   a. Participated in CPE related to their accounting and auditing assignments, including specialized industries.
   b. Complied with the firm’s CPE plan and the CPE requirements of the—
      i. Board of accountancy.
      ii. AICPA.
      iii. State CPA society.
      iv. SEC Practice Section.
      v. Government Auditing Standards—the “Yellow Book” (if applicable).
   c. Took appropriate action to correct situations where they were not in compliance with the CPE requirements of the AICPA and other regulatory bodies.

5. Interview selected staff and determine whether they believe the training programs they participated in were effective.
Appendix D

Optional Checklist for Review of SEC Practice
Section Membership Requirements

Period Covered __________________________

Findings, Including Extent of Testing Done By

1. Determine, on a sample basis, that each proprietor, shareholder, or partner of the firm residing in the United States and eligible for AICPA membership is a member of the AICPA. [SECPS §1000.08(a)]

2. Determine whether the firm filed its most recent annual report with the Section. [SECPS §1000.08(g)].

3. Determine whether the firm has complied with the requirements for rotation of partners on SEC engagements. [SECPS §1000.08(e)]

4. Determine whether a concurring review was performed, prior to the issuance of any audit report on the financial statements of SEC clients, of the audit report, financial statements and selected working papers by a partner qualified to do such review, who is other than the audit partner in charge of the engagement. [SECPS §1000.08(f)]

5. Determine whether the firm has performed any of the management advisory services that are proscribed by the Section. [SECPS §1000.08(h)]

6. Determine whether the firm maintains documentation in the working papers of its annual report to the audit committee or board of directors of each SEC audit client on the total fees received from the client for management advisory services during the year and a description of the types of such services rendered. [SECPS §1000.08(i)]

7. Determine whether the firm has reported to the Quality Control Inquiry Committee on a timely basis litigation or other actions against it or its personnel in situations required by the Section. [SECPS §1000.08(k)]

8. Determine whether the firm communicated in writing on a timely basis to an SEC registrant and the Office of the Chief Accountant of the SEC when the client-auditor relationship with the SEC registrant ceased. [SECPS §1000.08(m)]

9. Determine whether the firm has developed a statement of firm philosophy and communicated that statement to professional personnel on a periodic basis. [SECPS §1000.08(l)]

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Appendix E
Sample Summary Monitoring Report

Monitoring Period: From ___________________________ to ___________________________

Name of Reviewer(s):

Timing:

Briefly describe the monitoring procedures used by the firm.

Scope of engagements reviewed:

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<tr>
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<tbody>
<tr>
<td>SAS —</td>
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<tr>
<td>Audits —</td>
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<tr>
<td>SEC</td>
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<tr>
<td>Other entities, subject to SEC independence rules (not included above)</td>
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<tr>
<td>ERISA</td>
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<tr>
<td>Yellow Book</td>
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<tr>
<td>Other</td>
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<tr>
<td>Agreed-Upon Procedures</td>
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<tr>
<td>SSARS —</td>
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<tr>
<td>Reviews</td>
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<tr>
<td>Compilations With Disclosures</td>
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<tr>
<td>Compilations That Omit Disclosures</td>
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<tr>
<td>SSAE —</td>
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<tr>
<td>Financial Forecast and Projections —</td>
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<tr>
<td>Examinations</td>
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<tr>
<td>Reviews</td>
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<tr>
<td>Agreed-Upon Procedures</td>
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<tr>
<td>Other</td>
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<tr>
<td>Total</td>
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<tr>
<td>Percentage of A&amp;A Practice Reviewed</td>
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</table>

Did the monitoring procedures disclose any situations that would require the firm to take action to prevent future reliance on a report issued by the firm or require the firm to perform additional procedures to provide a basis for the report issued? Yes ____ No ____. If yes, describe the situation and the action(s) taken by the firm.

* Approximate totals may be used.
The monitoring findings and the recommendations regarding actions taken for improvements in the firm are attached.

Monitoring Coordinator Signature __________________________ Date ________________

Approved __________________________ Date ________________
Example 1
Implementation of a Periodic Inspection

DESCRIPTION OF THE FIRM
Size of Firm  Sole practitioner with one part-time professional staff.
Background  The sole practitioner has 25 years of public accounting experience of which the last 10 have been spent as a sole practitioner.
Nature of Practice

<table>
<thead>
<tr>
<th>Nature of Practice</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audits</td>
<td>2</td>
</tr>
<tr>
<td>Reviews</td>
<td>2</td>
</tr>
<tr>
<td>Compilations</td>
<td>13</td>
</tr>
</tbody>
</table>

Tax and management advisory service engagements make up the remainder of the practice.
Industry Concentrations  None. However, the firm does have clients in the following areas: manufacturing, construction, and not-for-profit organizations. The firm performs no audits of SEC or governmental clients.
Environment

- The sole practitioner takes various continuing professional education (CPE) courses offered by the state CPA society, primarily in the tax area. He takes very few CPE courses on accounting or auditing topics except for an annual auditing and accounting update course.
- The sole practitioner takes a majority of his courses in a self-study format.
- The sole practitioner rarely finds the need to consult with individuals outside his firm on accounting or auditing issues.

MONITORING PROCEDURES
Procedures  The sole practitioner evaluates compliance with his quality control policies and procedures by performing an annual inspection.
Timing  All inspection procedures are performed at one time during the year in July. Because the sole practitioner’s practice consist primarily of tax, he believes performing a detailed review of engagements at one time during the year will allow him to concentrate more intensely on accounting and auditing matters. Performing postissuance reviews throughout the year would not allow this concentration. The sole practitioner believes he can perform the inspection procedures because the auditing and accounting practice is not complex. However, he recognizes that someone from outside the firm could be used to perform the inspection (perhaps on a reciprocal basis) if so desired.
Documentation  The sole practitioner documents monitoring by completing—

- Appendix C of this document when testing the broad functional elements of quality control.
- The engagement review checklists used in performing peer reviews when reviewing the selected accounting and auditing engagements. The sole practitioner believes these checklists act as good “memory joggers” for accounting and auditing issues that he encounters on an infrequent basis.

Summarization  After the sample of engagements have been reviewed and the applicable broad functional elements of quality control tested, the deficiencies are summarized and the sole practitioner evaluates what actions, if any, should be taken to prevent the recurrence of the deficiencies noted.
Reporting  After the inspection procedures are performed, the summary monitoring report contained in Appendix E of this document is completed.
Retention Policy

After the summary monitoring report is finalized, no working papers, checklists, programs, or notes are retained regarding the engagements reviewed or the findings on those engagements or the review of the system of quality control.

Follow-Up

Six months after the summary monitoring report is prepared and the planned corrective actions are identified, the sole practitioner performs sufficient procedures to determine whether the corrective actions indicated in the summary monitoring report have been taken and whether they have achieved their objectives.
### Example 2

**Implementation of a Periodic Inspection**

**DESCRIPTION OF THE FIRM**

<table>
<thead>
<tr>
<th>Size of Firm</th>
<th>6  Partners</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>30 Professional staff other than the partners</td>
</tr>
<tr>
<td></td>
<td>1  Office</td>
</tr>
</tbody>
</table>

**Background**

Each partner has 20 years of public accounting experience with the last five to ten years spent as a partner.

**Nature of Practice**

<table>
<thead>
<tr>
<th>Audits</th>
<th>70</th>
<th>14500 hours</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reviews</td>
<td>30</td>
<td>3100 hours</td>
</tr>
<tr>
<td>Compilations</td>
<td>380</td>
<td>4400 hours</td>
</tr>
<tr>
<td>Attestations</td>
<td>20</td>
<td>500 hours</td>
</tr>
</tbody>
</table>

Tax and management advisory service engagements make up the remainder of the practice.

**Industry Concentrations**

The major concentration is health care services (nursing homes). The firm also has clients in: Yellow Book, ERISA, and SEC registrants.

**Environment**

- One partner serves as quality control partner for the firm.
- On certain larger engagements, one partner will review the financial statements prepared in connection with the other partner’s clients. The preissuance review is not comprehensive enough to qualify as an inspection procedure.

### MONITORING PROCEDURES

**Procedures**

The firm evaluates compliance with its quality control policies and procedures by performing an annual inspection.

**Timing**

All inspection procedures are performed at one time during the year in November.

**Documentation**

The firm documents monitoring by completing—

- Appendix C of this document when testing the broad functional elements of quality control.
- The engagement review checklists used in performing peer reviews when reviewing the selected accounting and auditing engagements.

**Summarization**

After the sample of engagements have been reviewed and the applicable broad functional elements of quality control tested, the deficiencies are summarized and the coordinating partner evaluates what actions, if any, should be taken to prevent the recurrence of the deficiencies noted.

**Reporting**

After the inspection procedures are performed, the summary monitoring report contained in Appendix E of this document is completed.

**Retention Policy**

After the summary monitoring report is finalized, no working papers, checklists, programs, or notes are retained regarding the engagements reviewed or the findings on those engagements or the review of the system of quality control.

**Follow-Up**

Four months after the summary monitoring report is prepared and the planned corrective actions are identified, the coordinating partner performs sufficient procedures to determine whether the corrective actions indicated in the summary monitoring report have been taken and whether they have achieved their objectives.
Example 3
Implementation of an On-Going Postissuance Review

DESCRIPTION OF THE FIRM

Size of Firm: Sole practitioner without staff

Background: The sole practitioner has 15 years of public accounting experience of which the last five years have been spent as a sole practitioner.

Nature of Practice:
- 2 Audits: 300 hours
- 5 Reviews: 200 hours
- 54 Compilations: 420 hours

Tax and management advisory service engagements make up the remainder of the practice.

Industry Concentrations: None. However, the firm does have clients in the following areas: manufacturing, wholesale distribution, and professional services. The firm performs no audits of SEC or governmental clients.

Environment:
- The sole practitioner is a member of an informal group of sole practitioners that meets twice a month to discuss issues of common interest and concern (including accounting, auditing, tax, and management topics).
- The sole practitioner is active in state CPA society activities and frequently attends CPE sessions held by the society.
- The sole practitioner consults with others when unsure about the approach to be taken on an accounting, auditing, or tax issue.

MONITORING PROCEDURES

Procedures: The sole practitioner evaluates compliance with her quality control policies and procedures at the engagement level by performing a postissuance review.

Timing: Postissuance reviews are performed immediately before the sole practitioner begins to plan the next year’s engagement. The results of the postissuance reviews are summarized semi-annually, each May and November. The broad functional elements of quality control are tested annually, each November, immediately before the sole practitioner’s busy season.

Documentation: The sole practitioner documents monitoring by completing—

- Appendix C of this document when testing the broad functional elements of quality control.
- A preplanning engagement checklist when reviewing accounting and auditing engagements. The postissuance review covers the report, financial statements, and working papers on the last year’s engagement and is comprehensive enough to allow the sole practitioner to determine whether—
  a. The report and financial statements conform with applicable professional standards.
  b. The engagement was performed in accordance with applicable professional standards (Statements on Auditing Standards, Statements on Standards for Accounting and Review Services, etc.).
  c. The engagement was performed in accordance with the firm’s quality control policies and procedures.

Although comprehensive engagement review checklists—such as those used by peer reviewers—are not completed, the sole practitioner references those checklists when performing the postissuance reviews if needed. Because the sole practitioner maintains active involvement in accounting and auditing matters through a discussion group, state society participation, and CPE, she believes this approach to be both efficient and effective.
Summarization  Although deficiencies noted on an engagement are corrected when the sole practitioner performs the next year's engagement immediately thereafter, a list of the engagement's deficiencies is maintained in a Postissuance Review Finding Folder. (The names of the clients are not retained on the lists.) Each May and November, the sole practitioner summarizes the lists of findings noted on the postissuance reviews performed during the preceding six months and evaluates what actions, if any, should be taken to prevent the recurrence of the deficiencies noted. The summary prepared in November also includes any findings noted during the testing of the broad functional elements of quality control for the year.

Reporting  In May and November, the summary monitoring report contained in Appendix E of this document is completed.

Retention Policy  After the summary monitoring report is finalized, no working papers, checklists, programs, or notes are retained regarding the engagements reviewed or the findings on those engagements or the review of the system of quality control.

Follow-Up  Five months after the summary monitoring report is prepared and the planned corrective actions are identified, the sole practitioner performs sufficient procedures to determine whether the corrective actions indicated in the summary monitoring report have been taken and whether they have achieved their objectives.
Example 4
Implementation of an On-Going Preissuance Review

DESCRIPTION OF THE FIRM

Size of Firm

- 2 Partners
- 6 Professional staff other than the partners
- 1 Office

Background

Each partner has 15 years of public accounting experience with the last five years spent as a partner.

Nature of Practice

- 8 Audits
- 20 Reviews
- 130 Compilations

Tax and management advisory service engagements make up the remainder of the practice.

Industry Concentrations

- The major concentrations are not-for-profit organizations and school districts. The firm also has clients in: construction and professional services. The firm performs no audits of SEC clients.

Environment

- The partner responsible for the school district audits is responsible for ensuring that he and the primary staff on those audits have the necessary CPE under Government Auditing Standards.
- The firm periodically holds in-house CPE for the staff which is taught by outside instructors.

MONITORING PROCEDURES

Procedures

The firm evaluates compliance with its quality control policies and procedures at the engagement level by performing a preissuance review on all audit engagements and on a sample of other types of engagements. Because there are only two partners, each partner performs the preissuance review for the other.

Timing

Preissuance reviews are performed throughout the year immediately before the firm issues the report on the engagement. The results of the preissuance reviews are summarized quarterly, each January, April, July, and October. The broad functional elements of quality control are tested annually, each July.

Documentation

The firm documents monitoring by completing—

- Appendix C of this document when testing the broad functional elements of quality control.
- A preissuance review checklist when reviewing accounting and auditing engagements. The preissuance review covers the report, financial statements, and working papers on the engagement and is comprehensive enough to allow the firm to determine whether—
  a. The report and financial statements conform with applicable professional standards.
  b. The engagement was performed in accordance with applicable professional standards (Statements on Auditing Standards, Statements on Standards for Accounting and Review Services, etc.).
  c. The engagement was performed in accordance with the firm’s quality control policies and procedures.

Although comprehensive engagement review checklists—such as those used by peer reviewers—are not completed, the preissuance reviewer references to those checklists when performing the preissuance reviews if needed.
Although deficiencies noted on an engagement are corrected before the report is issued, a list of the engagement’s deficiencies is maintained for summarization purposes. (The names of the clients are not retained on the lists.) Each quarter, one of the partners summarizes the lists of findings noted on the preissuance reviews performed during the quarter and evaluates what actions, if any, should be taken to prevent the recurrence of the deficiencies noted. The summary prepared in July also includes any findings noted during the testing of the broad functional elements of quality control for the year.

In January, April, July, and October the summary monitoring report contained in Appendix E of this document is completed. The findings in the summary monitoring report and any policy and procedure changes resulting from them are discussed at a quarterly staff meeting.

After the summary monitoring report is finalized, no working papers, checklists, programs, or notes are retained regarding the engagements reviewed or the findings on those engagements or the review of the system of quality control.

Three months after the summary monitoring report is prepared and the planned corrective actions are identified, the partner who prepared the summary monitoring report performs sufficient procedures to determine whether the corrective actions indicated in the report have been taken and whether they have achieved their objectives.
Exhibit 1
Sample Completed Summary Monitoring Report
Periodic Inspection
(Based on Example 2)

Monitoring Period: From October 1, 20XX to September 30, 20X1
Names of Reviewers: John Smith, James Doe

Briefly describe the monitoring procedures used by the firm. The firm evaluated compliance with its quality control policies and procedures through a periodic inspection performed annually in November. Appendix C of the Monitoring Guidance was used when testing the broad functional elements of quality control and the engagement review checklists contained in the Peer Review Program Manual were used when reviewing the selected accounting and auditing engagements. A representative sample of engagements was selected, including audit, review, compilation, and agreed-upon procedures engagements. The engagements covered our major industry concentration (health care services) and the high risk areas of Yellow Book, ERISA, and SEC registrants.

Scope of engagements reviewed:

<table>
<thead>
<tr>
<th></th>
<th>Firm Totals</th>
<th>Engrs. Reviewed</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Hrs.</td>
<td>No. of Engs.</td>
</tr>
<tr>
<td>SAS— Audits—</td>
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<td></td>
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<tr>
<td>SEC</td>
<td>250</td>
<td>1</td>
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<tr>
<td>Other entities, subject to SEC independence rules (not included above)</td>
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<td></td>
</tr>
<tr>
<td>ERISA</td>
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<td>1</td>
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<tr>
<td>Yellow Book</td>
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<td>3</td>
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<tr>
<td>Other</td>
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<td>9</td>
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<tr>
<td>Agreed-Upon Procedures</td>
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<td>56</td>
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<tr>
<td>SSARS— Reviews</td>
<td>3100</td>
<td>30</td>
</tr>
<tr>
<td>Compilations</td>
<td>4400</td>
<td>380</td>
</tr>
<tr>
<td>SSAE— Financial Forecast and Projections— Examinations</td>
<td>500</td>
<td>20</td>
</tr>
<tr>
<td>Other</td>
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<td></td>
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<tr>
<td>Total</td>
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</table>

Percentage of A&A Practice Reviewed 9.7% 3.4%

Did the monitoring procedures disclose any situations that would require the firm to take action to prevent future reliance on a report issued by the firm or require the firm to perform additional procedures to provide a basis for the report issued? Yes X No. If yes, describe the situation and the action(s) taken by the firm. A management representation letter was not obtained from an audit client. The representation letter has now been obtained.

See attachment for summary of monitoring findings and for recommendations of corrective actions.

Inspection Coordinator Signature ________________________________ Date _________________
Approved __________________________________________________________________________ Date _________________

PRP §10,000.54
Findings and Recommendations

1. Finding—On several engagements reviewed, we noted inappropriate answers on the disclosure checklist which resulted in the financial statements missing a few disclosures. There was no pattern to the missing disclosures and all were minor in nature.

   Recommendation—The firm should hold a staff meeting for all professional personnel to remind them about the importance of completing the disclosure checklist correctly. If personnel do not fully understand a question they should read the underlying professional literature and consult with the quality control partner if further guidance is needed or they believe continuing professional development should be offered on the topic.

2. Finding—On one audit engagement, the firm failed to obtain a management representation letter even though such letters are required under auditing standards. Our testing was expanded to cover all of the firm’s audit clients to ensure that this was an isolated occurrence.

   Recommendation—The firm should develop a final report routing sheet that documents all procedures that have not been performed at the time that a report is submitted for typing. The firm should establish procedures to ensure that all of the documented procedures are performed before the report is issued.

3. Finding—Although the firm obtains signed independence, integrity, and objectivity confirmations from all of its staff on an annual basis, two of those confirmations disclosed exceptions which were not resolved and that resolution documented. No inappropriate reports were issued as a result.

   Recommendation—The quality control partner who is in charge of obtaining independence, integrity, and objectivity confirmations should, when monitoring their receipt, review the confirmations for exceptions, resolve any exceptions noted, and document the resolutions. In the two cases noted, no independence problems occurred as a result of the exceptions.
Exhibit 2
Sample Completed Summary Monitoring Report
Preissuance Review
(Based on Example 4)

Monitoring Period: From ___April 1, 20XX___ to ___June 30, 20XX___

Names of Reviewers: ___John Smith, James Doe___

Briefly describe the monitoring procedures used by the firm. The firm evaluated compliance with its quality control policies and procedures at the engagement level through performance of preissuance reviews and summarized the results quarterly (each January, April, July, and October). Appendix C of the Monitoring Guidance was used when testing the broad functional elements of quality control for the year (each July). A preissuance review checklist was used when reviewing selected accounting and auditing engagements. The preissuance reviews covered the report, financial statements, and working papers on all audit engagements issued during the quarter and a representative sample of the other types of engagements. No preissuance reviewer was associated with the engagement he or she reviewed.

Scope of engagements reviewed:

<table>
<thead>
<tr>
<th></th>
<th>Total for Year</th>
<th>Total for Qtr.</th>
<th>Engs. Reviewed</th>
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</thead>
<tbody>
<tr>
<td>SAS—</td>
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<tr>
<td>Audits—</td>
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<td></td>
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<tr>
<td>Yellow Book</td>
<td>600 3</td>
<td>200 1</td>
<td>200 1</td>
</tr>
<tr>
<td>Other</td>
<td>900 5</td>
<td>370 2</td>
<td>370 2</td>
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<tr>
<td>Agreed-Upon Procedures</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SSARS—</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reviews</td>
<td>800 20</td>
<td>200 5</td>
<td>80 2</td>
</tr>
<tr>
<td>Compilations</td>
<td>1200 130</td>
<td>280 30</td>
<td>50 5</td>
</tr>
<tr>
<td>SSAE—</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>3500 158</td>
<td>1050 38</td>
<td>700 10</td>
</tr>
</tbody>
</table>

Percentage of A&A Practice Reviewed 66.6% 26.3%

Did the monitoring procedures disclose any situations that would require the firm to take action to prevent future reliance on a report issued by the firm or require the firm to perform additional procedures to provide a basis for the report issued? Yes __ No __ X __ If yes, describe the situation and the action(s) taken by the firm. Because the firm uses preissuance reviews to evaluate compliance with its policies and procedures at the engagement level, all engagement deficiencies noted as a result of those reviews were corrected before reports were issued.

See attachment for summary of monitoring findings and for recommendations of corrective actions.

Monitoring Coordinator Signature __________________________ Date __________

Approved __________________________ Date __________

PRP §10,000.55
Findings and Recommendations

1. Finding—On some of the engagements reviewed, we noted a few disclosure deficiencies that would have been caught if the firm had required the completion of a comprehensive reporting and disclosure checklist.

   Recommendation—The firm should adopt a policy requiring that a comprehensive reporting and disclosure checklist be completed on all engagements on which the firm reports on year-end financial statements.

2. Finding—On several audit engagements reviewed, we noted that the working papers did not document the extent of testing of related party transactions and review of subsequent events. However, we are satisfied that the necessary procedures were performed on each engagement.

   Recommendation—The firm should expand its standard audit program to include procedures for testing related party transactions and reviewing subsequent events.

3. Finding—On several audit engagements reviewed, we noted that SAS 82, Consideration of Fraud in a Financial Statement Audit, was implemented early and the firm did not fully document the identified fraud risk factors and the auditor's response to them.

   Recommendation—The firm should purchase or develop practice aids to assist professional staff in documenting their identification of fraud risk factors and response to them.

4. Finding—While the firm circularizes independence, integrity, and objectivity confirmations among its staff on an annual basis, two individuals failed to sign the confirmations.

   Recommendation—The partner-in-charge of obtaining the independence, integrity, and objectivity confirmations should monitor receipt of the confirmations and report to the other partner when they have all been returned.

5. Finding—Two non-CPA professional personnel who work on audit and accounting engagements participated in no accounting and auditing-related CPE.

   Recommendation—The two non-CPA professional personnel should be enrolled immediately in an annual accounting and auditing update course. In addition, the firm should revise its quality control policies and procedures to include a requirement that accounting and auditing personnel participate in an appropriate amount of CPE in accounting and auditing areas.

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PRP Section 11,000

[Reserved.]

[The next page is 20,001.]