

2003

# Proposed revisions to the AICPA standards for performing and reporting on peer reviews; AICPA standards for performing and reporting on peer reviews; Exposure draft (American Institute of Certified Public Accountants), 2003, May 30

American Institute of Certified Public Accountants. Peer Review Board

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# **EXPOSURE DRAFT**

## **PROPOSED REVISIONS TO THE AICPA STANDARDS FOR PERFORMING AND REPORTING ON PEER REVIEWS**

**MAY 30, 2003**

**Prepared by the AICPA Peer Review Board for comment  
from persons interested in the AICPA Peer Review Program**

**Comments should be received by August 8, 2003 and addressed to  
D. Dean Beddow, Senior Technical Manager,  
AICPA Peer Review Program,  
AICPA, Harborside Financial Center,  
201 Plaza Three, Jersey City, NJ 07311-3881  
or via the Internet to [dbeddow@aicpa.org](mailto:dbeddow@aicpa.org)**

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May 30, 2003

Accompanying this letter is an exposure draft, approved by the AICPA Peer Review Board (Board), containing several proposals for review and comment by the AICPA's membership and other interested parties regarding revisions to the *AICPA Standards for Performing and Reporting on Peer Reviews (Standards)* and Interpretations to the *Standards*. Interpretations are discussed and developed in open meetings by the Board and do not need to be exposed for public comment. However, they have been included for individuals to comment on as they provide clarification of matters within the *Standards*.

Written comments or suggestions on any aspect of this exposure draft will be appreciated. To facilitate the Board's consideration, comments or suggestions should refer to the specific paragraphs and include supporting reasons for each comment or suggestion. Responses should be sent to D. Dean Beddow, Senior Technical Manager, AICPA Peer Review Program, AICPA, Harborside Financial Center, 201 Plaza Three, Jersey City, NJ, 07311-3811, in time to be received by August 8, 2003. Electronic submissions of comments or suggestions in Microsoft Word should be sent to [dbeddow@aicpa.org](mailto:dbeddow@aicpa.org) in time to be received by August 8, 2003.

Written comments on the exposure draft will become part of the public record of the AICPA Peer Review Program and will be available for public inspection at the offices of the AICPA after September 30, 2003 for one year.

The exposure draft consists of three sections: the first section is a summary of the proposed revisions; the second section is an explanation of the proposed revisions; and the third section is the *Standards* and Interpretations reflecting the proposed revisions.

A copy of this exposure draft and the current *Standards* (effective for peer reviews commencing on or after January 1, 2001) are available on the AICPA Peer Review Web site at [www.aicpa.org/members/div/practmon/index.htm](http://www.aicpa.org/members/div/practmon/index.htm).

Sincerely,

*Anthony Lynn*

Anthony Lynn

Chair

AICPA Peer Review Board

*Gary Freundlich*

Gary Freundlich

Director

AICPA Peer Review Program

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## SUMMARY

### *Why Issued*

The AICPA Peer Review Board's (Board) 1998 Strategic Plan included a reevaluation and enhancement of the AICPA Peer Review Program (Program). As a result, two years ago, the Board completed Phase I of a two phase project to reevaluate and enhance the Program. Phase I related to off-site reviews, which led to new standards developed for engagement and report reviews, and were effective for peer reviews commencing on or after January 1, 2001. Phase II began in October 2001 with the Board forming the System Review Task Force (Task Force). The Task Force was formed with the purpose of reevaluating the administration, performance, reporting, objectives and overall effectiveness of system reviews conducted under the Program. The Task Force considered many factors in its reevaluation, including the changing regulatory and practice influences in the SEC and non-SEC environments. The Task Force also solicited input from many different parties involved in the peer review process, including CPA firms and users of peer review results. After concluding its reevaluation, the Task Force made numerous recommendations to the Board to enhance the Program. The Board agreed with the Task Force's recommendations and also proposed others, including revisions to engagement and report reviews. As a result, the Board has issued this exposure draft which proposes revisions to the AICPA *Standards for Performing and Reporting on Peer Reviews (Standards)*. AICPA, *Professional Standards*, vol. 2 PR Section 100.

### *What it does*

This proposal—

- Identifies new responsibilities for firms that are enrolled in the Program. The new responsibilities are in the areas of engaging a peer reviewer, having a peer review performed in a timely manner, and providing various written representations to the peer reviewer and the administering entity. (Explanatory Section - page 10)
- Explains the timing, including due dates, of peer reviews. (Explanatory Section - page 10)
- Requires that if a firm, subsequent to the year-end of its report or engagement review, performs an accounting, auditing or attestation engagement that would have required the firm to have a higher level peer review (engagement or system review), the firm should undergo the higher level engagement or system review. The proposal would require a firm to undergo the higher level peer review at the earlier of 18 months or its next scheduled review due date. Firms that undergo report or engagement reviews will be required to provide the administering entity with an annual representation regarding their accounting and auditing practice which will identify whether the firm is subject to this new requirement. (Explanatory Section - page 10)

- Incorporates within *Standards* the requirement that entities requesting to administer the Program complete and sign an annual Plan of Administration. The proposal also imposes an obligation on the administering entities to ensure that their staff, technical reviewers, committee members and all others involved in the administration of the Program comply with the *Standards* and other guidance established by the Board. While this was implied in the Program before, it is now explicit in the *Standards*. (Explanatory Section - page 11)
- Eliminates committee-appointed review teams (CARTs) for system reviews, but still permits CARTs for engagement and report reviews at the administering entity's discretion. (Explanatory Section - page 11)
- Emphasizes that the review team must complete all relevant peer review materials to provide evidence of the work performed and conclusions reached on peer reviews. In addition, the proposal creates a retention policy for those materials. (Explanatory Section - page 11)
- Clarifies the requirement that the individual serving as a reviewer be associated with a firm that has received an unmodified report on the review of its system of quality control or an unmodified report on its engagement review *that was accepted within the last three years and six months*. In addition, if the individual is associated with more than one firm, each of the firms the member is associated with *as a partner* should have received an unmodified report on its most recent peer review that was accepted within the last three years and six months. (Explanatory Section - page 12)
- Requires that an individual serving as a reviewer, whether as a team captain *or a team member*, has completed a peer review training course or course that meets the requirements established by the Board. (Explanatory Section - page 12)
- Explains that individuals who become associated with a newly formed firm, which has not had a peer review, may continue serving as a reviewer during a transitional period, provided such individuals were qualified to perform peer reviews prior to becoming associated with the newly formed firm. (Explanatory Section - page 12)
- Adds an additional objective to system reviews which requires the assessment of and reporting on whether the reviewed firm has demonstrated the competencies necessary to perform accounting, auditing and attestation engagements in accordance with professional standards in all material respects. (Explanatory Section - page 12)
- Defines a substandard engagement as one in which the deficiencies identified, individually or in aggregate, are material to understanding the report or the financial statements accompanying the report, or represents omission of a critical accounting, auditing, or attestation procedure(s) required by professional standards. (Explanatory Section - page 13)

- Emphasizes that failing to select required engagements as described in the *Standards* or Interpretations may create the presumption that the review has not been performed in conformity with the *Standards*. In addition, any other engagement selection guidelines used that are not consistent with those in the *Standards*, Interpretations or guidance should not be incorporated in the engagement selection process or this may also create the presumption that the review has not been performed in conformity with the *Standards*.

This is a national peer review program and the Board believes that the engagement selection guidelines in the *Standards*, Interpretations and guidance are appropriate and in the public's best interest. If other organizations have additional engagement selection requirements, the Board recommends that the reviewed firms consider hiring a CPA firm to perform an agreed-upon procedures engagement outside the scope of the Program review to satisfy any such requirements. (Explanatory Section - page 13)

- Requires that the reviewed firm make available to the reviewer communications from or the results of any investigation within the three years preceding the firm's current peer review year-end by the state boards of accountancy, AICPA or state CPA society ethics committee, any other government agency, or any other organization that has the authority to regulate accountants in connection with the quality of the firm's accounting or auditing practice, whether the investigation relates to the firm or its professional personnel. (Explanatory Section - page 14)
- Indicates that if an engagement is excluded from possible selection in the peer review an automatic scope limitation in the peer review report will result. The only exception to the automatic scope limitation is when the engagement is the subject of litigation/investigation related to accounting or auditing matters, and the engagement has been referred to the AICPA's or state CPA society's professional ethics committee for investigation and the reviewer concludes that the exclusion does not materially affect the overall engagement selection. (Explanatory Section - page 14)
- Clarifies that if a firm has had a significant acquisition of another practice or a portion thereof, or a divestiture of a significant portion of its practice, during or subsequent to its peer review year, that the firm, reviewer, or both, should contact the AICPA staff *prior to the commencement of the review* to consider the appropriate scope of the review. (Explanatory Section - page 14)
- Creates new guidance on when to provide the reviewed firm with the list of engagements selected for review. The list of engagements should be provided to the reviewed firm, no earlier than two weeks before the commencement of the review and at least one engagement from the initial selection should be provided to the reviewed firm once the review commences. (Explanatory Section - page 14)
- Creates new guidance regarding significant audit risk areas and how they relate to the peer review process. Audit engagements have areas where risk may be inherently

significant such as fraud considerations, use of estimates and emerging issues. The review team's procedures should include determining whether the reviewed firm has appropriately identified these and other high risk areas, performed the required audit procedures and documented those procedures. (Explanatory Section - page 15)

- Establishes the review team's documentation requirements as it relates to each engagement reviewed, such as whether anything came to its attention that caused it to believe that the firm has not demonstrated the competencies necessary to perform accounting and auditing engagements in accordance with professional standards in all material respects. (Explanatory Section - page 15)
- Indicates that reviewers or administering entities should not instruct reviewed firms to recall or reissue accounting or auditing reports. (Explanatory Section - page 16)
- Requires the team captain to be present at the exit conference and to communicate with senior members of the reviewed firm that they may be required to participate in certain corrective actions. (Explanatory Section - page 16)
- Revises the format and content of system review reports and letters of comments. (Explanatory Section - page 16)
- Revises the format and content of engagement review reports and letters of comments. (Explanatory Section - page 17)
- Revises reports on report reviews by indicating that the reviewer has read certain representations provided by the firm. In addition, comments that are significant are identified as such. The Board is issuing an Interpretation, providing guidance for identifying significant matters/comments on report reviews. (Explanatory Section - page 17)
- Specifies that reviews should be presented to and evaluated by a committee or report acceptance body in a timely manner, ordinarily within 120 days of receipt of the report, letter of comments and letter of response, if applicable, from the reviewed firm. Report reviews that do not require committee consideration should be accepted by the technical reviewer within 45 days of receipt of the report from the reviewed firm. (Explanatory Section - page 17)
- Clarifies that only the participating administering entity's peer review committee will be responsible for determining whether a disagreement exists on a peer review in order to refer the matter to the Board for resolution. (Explanatory Section - page 18)
- States that if a firm fails to correct significant deficiencies after consecutive corrective actions requested by the committee during the course of one peer review, the firm may be deemed as a firm refusing to cooperate with the administering entity and the Board. (Explanatory Section - page 18)

- Indicates that the Board and AICPA staff will evaluate reviewers to determine if there are deficiencies in the reviewers' performance on peer reviews or if a pattern of deficiencies exists and may require a reviewer to comply with certain actions in order for the reviewer to continue performing reviews. (Explanatory Section - page 18)
- Incorporates the qualification requirements of committee members charged with the responsibility for acceptance of reviews to complete the Report Acceptance Body training course, or course that meets the team captain/reviewer training requirements established by the Board, within three years prior to serving on the committee or during the first year of service on the committee. (Explanatory Section - page 19)
- Adds the qualification requirements into the *Standards* for technical reviewers charged with the responsibility for performing technical reviews. (Explanatory Section - page 19)
- While not a part of the proposal to amend Standards, the board requests respondents' input on:
  - The public availability of peer review findings (Explanatory Section – page 20)
  - A new name for peer review (Explanatory Section – page 20)

**EXPLANATIONS OF THE PROPOSED REVISIONS TO THE AICPA  
STANDARDS FOR PERFORMING AND REPORTING ON PEER REVIEWS  
(STANDARDS)**

**Firm responsibilities (Standards paragraph 2 and Appendix B)**

The Board carefully considered the responsibilities of firms enrolled in the Program and determined that for the Program's continued success, the *Standards* should clearly state, what the firm responsibilities are during the peer review process. Although firms have had responsibilities in the past, these responsibilities were not part of the *Standards*. If adopted, the *Standards* would identify each responsibility.

One of the new responsibilities (paragraph 2f) is for firms to make certain representations in writing to the peer reviewer regarding compliance with state regulatory requirements. The Board understands the importance of regulatory requirements and has had lengthy discussions on how to incorporate the various requirements into the peer review process. Since, the goal of the Program is the quality in the performance of accounting and auditing engagements, peer reviewers are expected to possess the skills and knowledge necessary to review a firm's system of quality control and the accounting and auditing engagements it issues to determine whether it is in conformity with professional standards in all material respects. Due to the volume and complexity of the laws, rules and requirements of the state regulatory bodies in the 54 jurisdictions, it is virtually impossible for a peer reviewer to ensure compliance. Therefore, the Board is requiring each reviewed firm to ensure that it is in compliance with the various regulatory requirements it is subject to, and to represent such compliance to the peer reviewer. The reviewer will then use that information as a part of the peer review planning process and, with guidance issued by Board, report on such information or include it in the letter of comments, as appropriate. The Board plans to issue additional guidance in this area prior to the effective date of the revised *Standards*.

In addition, the Board has determined that in order to help ensure that the reviewer has a complete list of the firm's engagements available for review; the firm will be required to represent this fact in writing to the reviewer.

In conjunction with the new requirement that firms must undergo a higher level peer review as discussed in paragraph 10 of the *Standards* and in Timing of Reviews below, firms participating in or completed an engagement or report review will be required to provide the administering entity with an annual representation regarding its accounting and auditing practice which will identify whether the firm is subject to this new requirement.

**Timing of Reviews (Standards paragraphs 7-16)**

The Board has had guidance on the timing of peer reviews for many years and believes it is important to incorporate the guidance into the *Standards*. In addition, the Board believes that the guidance should be expanded, for example, to require a firm to undergo

a higher level peer review if, subsequent to the year-end of its report or engagement review, the firm performs an accounting, auditing or attestation engagement that would have required the firm to have the higher level peer review. In addition, the proposal would require a firm to undergo the higher level peer review at the earlier of 18 months or its next scheduled review due date. In addition, if a firm performs such an engagement after the peer review year-end but prior to the performance of its report or engagement review, the firm should consider changing it to a higher level peer review otherwise the firm will have to undergo an additional peer review. This addition is proposed to prevent firms from issuing audit, attestation or other engagements in the periods between peer reviews such that these levels of service could fall outside the scope of its peer review.

#### **Administration of Reviews (Standards paragraphs 21-24)**

The Board is responsible for overseeing, providing guidance for and coordinating the activities of the entities (known as administering entities) approved by the Board to administer the Program. The Board has had existing guidance on the administration of reviews and determined that it would be more appropriate to incorporate this guidance into the *Standards*. The Board also believes that it needs to emphasize that the administering entities are obligated to ensure that their staffs, technical reviewers, committee members and all others involved in the administration of the Program comply with the *Standards* and guidance issued by the Board. Administering entities that fail to cooperate with the Board or are found to be deficient in administering the Program could have their ability to administer the Program revoked.

#### **Eliminating System Review Committee Appointed Review Teams (CARTs) and Revisions to Association Formed Reviews (Standards paragraph 25, 86 and 107)**

Under the current *Standards*, there are three ways a peer review team may be formed (firm-on-firm, CART, and association). The Board evaluated the effectiveness of each type of formation as well as the administrative requirements of each. As a result, the Board determined that the administrative burden of system review CARTs exceeded the benefits derived from them, and therefore proposes elimination. The Board considered eliminating CARTs for engagement and report reviews but determined that they should remain available, for use at the administering entity's discretion.

The Board believes that since the team captain is the individual responsible for the peer review, the letterhead of the peer review report and letter of comments should be that of the firm that the team captain is associated with. Accordingly, while peer reviews performed by association formed teams are not being eliminated, the Board proposes to no longer accept reviews issued on association letterhead.

#### **Review Team Materials (Standards paragraphs 29-30, Interpretation No. 10)**

The Board determined that there was a need to emphasize that a review team must complete *all* relevant peer review materials to provide evidence of the work performed and the conclusions reached on system, engagement and report reviews. In addition, the

Board considered the recent environment related to documentation retention issues, the purpose of retaining peer review materials and the Board's definition of when a peer review is completed (See Interpretation No. 8). As a result, the Board will be issuing Interpretation No. 10 on Peer Review Material Retention Policies, which states the time period peer review materials should be retained. The Board is also incorporating its existing guidance related to peer review material retention policies into the *Standards* and its Interpretations.

### **Qualifying for Service as a Reviewer (Standards paragraphs 31- 32, Interpretation No. 3)**

The Board reevaluated the qualifications for service as a reviewer (including being a team captain or a team member on a system review or a reviewer on an engagement or report review). The Board believes that in order for a firm to obtain the greatest benefit from the peer review process, reviewers should not only possess the necessary knowledge of accounting and auditing standards, but should also possess current knowledge of quality control and peer review standards. This is not a new concept, rather one that needs to be formally incorporated into *Standards*. In addition, the Board is proposing to clarify existing guidance that a reviewer needs to be associated with a firm that has undergone a system review or engagement review *that was accepted within the last three years and six months*. Furthermore, the Board is clarifying other existing guidance related to previously qualified reviewers who become associated with a newly formed firm that has not had a peer review. The Board believes that the Program would be adversely affected by automatically disqualifying otherwise qualified reviewers just because they change firms.

The Standards would also clarify that, if a reviewer is associated *as a partner* with more than one firm, each of the firms should have received an unmodified report on the review of its system of quality control or an unmodified report on its most recent engagement review that was accepted within the last three years and six months.

The Board also reevaluated the training course requirements that must be met by team captains on system reviews and reviewers on engagement and report reviews and the proposal expands the requirement to include team members on system reviews as described in Interpretation No. 3.

### **Objectives of System Reviews (Standards paragraph 37)**

As a part of its reevaluation of system reviews, the Board considered the effectiveness of the existing objectives of peer review, which 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 and (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 in all materials respects. Based on its review, the Board determined that an additional

objective related to whether the firm has demonstrated the competencies necessary to perform accounting, auditing and attestation engagements in accordance with professional standards in all material respects was necessary. Accordingly, the Board proposes to bring this concept into the objectives of a system review because the AICPA Statement on Quality Control Standards No. 5 (SQCS No. 5) specifically *requires* the practitioner-in-charge of an attest engagement to possess certain competencies. Competencies are defined in SQCS No. 5 as the knowledge, skills and abilities to enable a practitioner-in-charge to be qualified to perform an accounting, auditing or attestation engagement and that the firm is expected to determine the kinds of competencies *necessary* in the individual circumstances. Therefore, the added objective focuses on a requirement that already exists within professional standards and is required of the reviewed firm. In addition, Section 7(c)(3) of the Uniform Accountancy Act also indicates any individual licensee who is responsible for supervising attest (or compilation) services or authorizes someone to sign the accountant's report on the financial statements on behalf of the firm, shall meet the experience or *competency requirements* set out in the professional standards for such services.

#### **Definition of a Substandard Engagement (Standards paragraph 41, Appendix O)**

An engagement is ordinarily considered “substandard” when deficiencies exist, individually or in aggregate, that are material to understanding the report or financial statements accompanying the report, or represent omission of a critical accounting, auditing or attestation procedures required by professional standards. While this definition has been used for years, it has never been incorporated into the *Standards*, and some users are unaware of its application. The Board proposes to bring the definition into the *Standards* and, in conjunction with revising system review reports to be easier to understand, to specifically identify in the peer review report (and letter of comments) any engagements determined to be substandard. The Board believes that it is important for users of peer review reports, including reviewed firms, to know by reading the report (or letter of comments) whether any substandard engagements were identified during the peer review.

#### **Scope of the Review (Standards paragraphs 43, 49, and 50)**

Emphasizes that failing to select required engagements as described in the *Standards* or Interpretations may create the presumption that the review has not been performed in conformity with the *Standards*. In addition, any other engagement selection guidelines used that are not consistent with those in the *Standards*, Interpretations or guidance should not be incorporated in the engagement selection process or this may also create the presumption that the review has not been performed in conformity with the *Standards*

This is a national peer review program and the Board believes that the engagement selection guidelines in the *Standards*, Interpretations and guidance are appropriate and in the public's best interest. If other organizations have additional engagement selection requirements, the Board recommends that the reviewed firms consider hiring a CPA firm

to perform an agreed-upon procedures engagement outside the scope of the Program review to satisfy any such requirements.

The Board also determined that in order for a reviewer to appropriately plan a review and select engagements to review under a risk based approach to performing peer reviews, the *Standards* should be revised to require reviewed firms to make available to the reviewer any communications from or the results of any investigation within the three years preceding the firm's current peer review year-end by any state board of accountancy, AICPA or state CPA society ethics committee, any other governmental agency, or any other organization that has the authority to regulate accountants in connection with the quality of the firm's accounting or auditing practice, whether the investigation relates to the firm or its professional personnel.

The current *Standards* indicate that a reviewed firm may have legitimate reasons for not permitting an engagement to be reviewed, such as when the engagement is subject to litigation. The Board evaluated this policy and although a firm may have legitimate reasons for not permitting an engagement to be reviewed, the Board proposes that if a firm excludes an engagement from possible selection, an automatic scope limitation in the peer review report will result. The only exception to the automatic scope limitation is when the engagement has been referred to the AICPA's or state CPA society's professional ethics committee for investigation, which the firm may do itself. The reviewer would then have to also be able to conclude that the referred engagement(s) does not materially affect the engagement selection of the peer review. The Board believes that a modified peer review report should be issued when the scope of the review is limited by conditions that preclude the application of one or more of the procedures considered necessary in the circumstances, and the review team cannot accomplish the objectives of those procedures through alternative procedures.

#### **Notification of Significant Acquisition or Divestiture of a CPA Firm (*Standards* paragraph 48)**

A reviewed firm's system of quality control may be affected by the acquisition or divestiture of all or a portion of a CPA firm's practice. The Board believes that in order to ensure that the appropriate system of quality control is reviewed, the scope of engagement selection is appropriate, or if other actions need to be taken, the reviewer, the reviewed firm or both should consult with the AICPA staff *prior to the commencement of the review* to assist in this determination.

#### **Selection of Engagements (*Standards* paragraph 60)**

The current *Standards* lack specific guidance on when reviewers should inform the reviewed firm which engagements have been selected for review. In determining the appropriate policy for the notification of engagement selection, the Board considered factors such as, the firm's awareness of the timing of the peer review in advance of its commencement, the firm's responsibility to have a system of quality control in place, that engagements selected are those that have already been completed with reports issued, and

that engagement related documentation and certain individuals need to be available based on engagement selection. As a result, the Board is proposing that the list of engagements selected for review should be provided to the firm *no earlier than* two weeks before the commencement of the review. In addition, the Board proposes that at least one engagement be selected, without increasing the scope of the review, once the review has commenced and not in advance.

Providing the list of engagements within two weeks of the commencement of the review should allow firms to assemble the required engagement documentation and personnel before the review team arrives. Selecting at least one engagement once the review has commenced enhances the Program without placing any additional significant burden on the firm.

### **Extent of the Review of Engagements (Standards paragraphs 63-68)**

The *Standards* currently state that the review of engagements should include the review of financial statements, accountants' reports, working paper files and correspondence, as well as discussions with the reviewed firm. In addition, the review team is required to document whether anything came to its attention causing it to believe that a) the financial statements were not presented in accordance with generally accepted accounting principles in all material respects, and b) the firm did not comply with the firm's system of quality control or the documentation did not support the report issued. The Board evaluated these requirements and determined that they were still appropriate; however, the Board also believes it is important to enhance the risk-based approach of reviewing engagements.

As a result, the Board proposes to significantly change the procedures that reviewers utilize to review audit engagements, which will result in more effective peer reviews. Audit engagements have areas where risk may be inherently significant such as fraud considerations, use of estimates and emerging issues. If adopted, the review team's procedures would include determining whether the reviewed firm has appropriately identified these and other high risk areas, performed the required audit procedures related to the identified significant risk areas and appropriately documented its audit procedures. Peer review checklists will not be eliminated. However, the Board plans to significantly revise the peer review engagement checklists and issue additional "wrap-around" guidance to focus the process more on the higher risk engagements and audit areas. The Board expects this to enhance the peer review process because firms will need to be able to explain to the peer reviewers how it identified the risks, addressed such risks during its audit, and documented the procedures performed, rather than solely answer yes or no questions in the checklists. The Board understands that in addition to issuing guidance in this area, those involved in the peer review process will need education.

As previously discussed, if adopted an objective will be added to system reviews regarding the reviewer determining whether the firm has demonstrated the competencies necessary to perform accounting and auditing engagements in accordance with professional standards in all material respects. Under this proposal, reviewers would also

be documenting whether the firm has not demonstrated such competencies on each engagement.

This proposal also states that reviewers or administering entities should not instruct firms to recall accounting or auditing reports, to have reports reissued, or to correct previously issued reports. The Board believes that firms should be made aware of the professional standards that deal with those specific matters, but that those decisions should be determined by the reviewed firm. The firm's actions, however, may impact other corrective actions the administering entity's peer review committee may impose.

### **Exit Conference (*Standards* paragraph 69 and Interpretation No. 1)**

The exit conference is the culmination of the peer review where the review team communicates its conclusions to senior members of the reviewed firm, including whether the firm may be required to participate in certain corrective actions. This meeting occurs prior to the review team issuing the peer review report, and if applicable, letter of comments. Since the system review team captain is the lead person on the review team, the Board believes that in order for the firm to receive the most benefit from the review, the team captain should attend the exit conference in person. Interpretation No. 1 of the *Standards*, which allows system reviews to be performed at a location other than the reviewed firm's office under certain conditions, is the only exception to this requirement.

### **System Review Reports and Letters of Comments (*Standards* paragraphs 89-96)**

The Board's reevaluation of the peer review process identified a need to make system review reports and letters of comments easier to understand and better facilitate the communication of matters identified during peer reviews, not only for the approximately 17,000 firms subject to system reviews, but also for those who use the results of peer review in their decision making processes (such as whether to hire a CPA firm to perform an audit). Approximately two-thirds of firms subject to system reviews *currently* make some aspects of the results of their peer review available to entities outside of their firm. Therefore, the Board believes that the proposed revisions to the reporting model (and letter of comments) significantly enhances the peer review process and better serves the public interest.

One such proposed revision in paragraph 94 of the *Standards* requires that if an engagement is deemed to be substandard, even if the matter is deemed isolated, it should at a minimum be included as a comment in the letter of comments.

The format and elements proposed to be included and eliminated in system review reports are included in paragraph 89 of the *Standards*. The Appendices in the *Standards*, which are referenced in paragraph 90 of the *Standards*, provides specific report examples.

The format and elements proposed to be included and eliminated in system review letters of comments are included in paragraphs 91-95 of the *Standards*. The Appendices in the

*Standards*, which are referenced in paragraph 96, provides specific letters of comments examples.

### **Engagement Review Reports and Letters of Comments (*Standards* paragraphs 98-105)**

The Board also considered what enhancements, including the proposals made to the respective system review documents, should be made to engagement review reports and letters of comments.

The format and elements proposed to be included and eliminated in engagement review reports are included in paragraphs 98-101 of the *Standards*. The Appendices in the *Standards*, which are referenced in paragraph 102, provides specific report examples.

The format and elements proposed to be included and eliminated in engagement review letters of comments are included in paragraphs 103-104 of the *Standards*. The Appendices in the *Standards*, which are referenced in paragraph 105, provides specific letters of comments examples.

### **Reporting on Report Reviews (*Standards* paragraphs 107-109, Interpretation No. 9)**

The Board has been monitoring the implementation and administration of report reviews since they became effective with reviews commencing on or after January 1, 2001. As a result, the Board determined that in order to better clarify which comments in a report review report are “significant,” comments should be identified as such in the report. This proposal will allow the firm to better understand the importance of the comments and the technical reviewer can more consistently identify such comments for purposes of committee consideration. In conjunction with this revision, the Board intends on issuing guidance via Interpretation No. 9 – Significant Matters/Comments on a Report Review (which currently exists elsewhere in peer review guidance). This does not change the Board’s original framework for report reviews and a relatively small percentage of firms have significant comments on report reviews.

The format and elements proposed to be included in the reports for report reviews are included in paragraphs 107-108 of the *Standards* and paragraph 109 references a specific example of a report contained in the Appendices in the *Standards*.

### **Presentation of Peer Reviews to Committee Members (*Standards* paragraphs 112, 115)**

Each administering entity appoints a committee, also known as a report acceptance body, for various purposes, including the consideration and acceptance of the results of peer reviews it administers. Since firms are required to complete their peer reviews in a timely manner, the Board believes that technical reviewers and committees should perform their functions in a timely manner as well. Therefore, the Board proposes that reviews be presented to and evaluated by the committee ordinarily within 120 days of receipt of the

report, letter of comments and letter of response, if applicable from the reviewed firm. For report reviews that do not require committee consideration, the technical reviewer should accept these reviews within 45 days of receipt of the report from the reviewed firm.

### **Resolving Disagreements (Standards paragraph 117)**

The Board recognizes that disagreements between reviewed firms, peer reviewers and administering entities occur on occasion. Disagreements on peer reviews usually relate to whether an engagement departs from professional standards in all material respects or whether an unmodified, modified or adverse report should be issued. The Board expects that most disagreements can be resolved by the reviewed firm, the reviewer and the administering entity and only in rare instances need to be referred to the Board by the *administering entity* for final resolution. In the event that a disagreement between the reviewed firm and the reviewer cannot be resolved by ordinary good faith efforts between them or with the assistance of the administering entity, only the administering entity's peer review committee will be responsible for determining whether a disagreement still exists in order to refer the matter to the Board for resolution.

### **Disciplinary Actions for Firms Failing to Correct Material Deficiencies (Standards paragraph 118)**

Under the current *Standards* and pursuant to due process, disciplinary actions including actions that can result in the termination of a firm's enrollment in the peer review program and subsequent loss of membership in the AICPA will only be taken for a firm's refusal to cooperate. This includes failing to correct material deficiencies and situations where the firm is so seriously deficient in its performance that education and corrective actions are not adequate. The Program's framework is built on the basis that a systemic monitoring and educational process is the most effective way to obtain high-quality performance in accounting and auditing engagements and firms are expected to participate in corrective actions in response to deficiencies in their system of quality control and engagements performed. The proposal clarifies that a firm may be deemed as refusing to cooperate during the course of *one* peer review.

### **Evaluation of Reviewers (Standards paragraphs 120-126)**

Evaluating the performance of peer reviewers is a critical element of ensuring that the Program is operating effectively. Reviewers are responsible for performing peer reviews in a competent, professional and timely manner. Administering entities are responsible for evaluating a reviewer's performance on the peer reviews they administer. The Board has determined that increasing oversight procedures on peer reviewers is essential to enhancing the evaluation of their performance and in identifying reviewers with performance issues. When deficiencies or a pattern of deficiencies are noted in a reviewer's performance by the administering entity, it should consider the need to impose corrective or monitoring actions. The proposal clarifies the fact that the Board and the

AICPA peer review staff are also involved in this evaluative process. The Board plans to issue additional guidance in these areas separate from the *Standards*.

The Board is aware that many reviewers perform reviews which are administered by different administering entities. The Board has issued guidance (outside of the *Standards*) that administering entities should report reviewer performance issues, where applicable, to the administering entity where the reviewer's firm's main office is located.

**Qualifications for Service as a Peer Review Committee Member (*Standards* paragraph 127 and 128)**

Similar to raising the level of the qualifications for service as a reviewer, the Board reevaluated the qualifications of committee members charged with the responsibility for acceptance of reviews. The Board proposes that, in addition to current requirements, committee members should have completed the Report Acceptance Body Training Course or training course(s) that meet the team captain training requirements established by the Board within three years prior to serving on the committee or during the first year of service on the committee. As a modification to an existing requirement, all committee members will be required to be associated with a firm that has received an unmodified report on its most recently *accepted* system or engagement review. Peer review committees have several important responsibilities related to the administration of the Program and therefore the Board also proposes that the chairperson of the committee possess the qualifications required of a system review team captain.

**Qualifications for Service as a Technical Reviewer (*Standards* paragraph 129)**

The technical reviewer's primary responsibility is to evaluate whether the report, letters of comments and letter of response and the peer review documentation make sense and appear to be in compliance with the *Standards* and guidance. In addition, technical reviewers answer technical questions related to the peer review and act as a liaison between the reviewer and the peer review committee. The Board believes that technical reviewers should be knowledgeable about the peer review program, accounting and auditing issues, and have an understanding of how reviewers perform peer reviews. Therefore, the Board proposes that technical reviewers participate in a minimum number of continuing professional education hours in accounting and auditing, participate in at least one peer review each year, and attend one or more peer review training courses that are applicable to the types of peer reviews being technically reviewed that meet the requirements of the team captain/reviewer training requirements. These qualification requirements currently exist, but the Board determined that it would be appropriate to incorporate them into the *Standards*.

### **Public Availability of Peer Review Findings**

The Board strongly supports greater transparency of the peer review process and the concept of public access to the results of system reviews. In this light, the Board's evaluation of system reviews included exploration of the benefits and challenges of making certain system review information and documents<sup>1</sup> available to the public.

The Board's proposal takes a significant step toward improving transparency by calling for revisions to the peer review reporting requirements that would result in more understandable reports with relevant and specific peer review findings. However, it does not include a provision to give the general public greater access to those findings and other related information. The Board appropriately concluded that a more in-depth study was required to determine the appropriate method of disclosure. The Board is interested in receiving any comments, suggestions, or input on the matter of public access as it continues to explore and evaluate this concept. It is important that the comments received are detailed enough to provide the Board with a complete understanding of the respondents' views.

### **New Name for Peer Review**

The Board is considering whether the terms "peer review", "system review", "engagement review" and "report review" appropriately reflect the enhanced Peer Review Program, as proposed. The Board's initial conclusion is that each term is appropriate.

The Board would be interested in receiving input on this matter. Based on the responses received to this exposure draft, the Board may change the names of any or all of these terms.

### **How It Affects Existing Standards**

Revisions to the *Standards* adopted after exposure and consideration of the comments received, would be effective for peer reviews commencing on or after January 1, 2005. Early implementation is **not** allowed.

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<sup>1</sup> Certain information and documents considered include: a firm's most recently accepted peer review report, letter of comments, if applicable, and letter of response, if applicable; signed letter indicating that the peer review documents had been accepted with the understanding that the firm agrees to take certain actions, if applicable; notification that certain required actions have been completed, if applicable; notification that its peer review has been accepted; and notification of resignation or termination from the program.

**PROPOSED  
AICPA 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~~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.*)

Firms have peer reviews because of the public interest in the quality of the accounting, auditing and attestation services provided by public accounting firms.

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~~Standards are effective for peer reviews commencing on or after January 1, 2005, ~~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~~entities administering the reviews, and to associations of CPA firms assisting their members in arranging and carrying out peer reviews. Individuals using these ~~standards~~Standards should be knowledgeable about Interpretations issued by the AICPA Peer Review Board that might affect the application of these ~~standards~~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~~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

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

2. Firms (and individuals)<sup>2</sup> ~~enrolled in the Program AICPA peer review program have the responsibility to need to—~~

- a. Establish and maintain appropriate quality control policies and procedures, and comply with them to ensure the quality of their practices. ~~Statement on Quality Control Standards (SQCS) No. 2, System of Quality Control for a CPA Firm's Accounting and Auditing Practice (AICPA, Professional Standards, vol. 2, QC sec. 20), requires every CPA firm, regardless of its size, to have a system of quality control for its accounting and auditing practice.~~
- b. ~~Perform accounting and auditing engagements in accordance with professional standards by competent professionals.~~
- c. ~~Engage a peer reviewer to perform a peer review in accordance with these Standards, in a timely manner.~~
- d. Have independent peer reviews<sup>3</sup> of their accounting and auditing practices ~~at least once every three years. All firms that an AICPA member is associated with should undergo a peer review if the services performed and reports issued by the firm require a peer review.~~
- e. ~~Take such measures, if any, as may be necessary to satisfy its obligations concerning client confidentiality any time state statutes or ethics rules promulgated by state boards of accountancy do not clearly provide an exemption from confidentiality requirements when peer reviews are undertaken.~~
- f. ~~Provide written representations to the peer reviewer indicating that the firm a) is not aware of any situations where it or its personnel has not complied with state board(s) of accountancy or other regulatory bodies rules and regulations, (including applicable firm and individual licensing requirements in each state in which it practices for the year under review) or has not notified the peer reviewer of any such situations b) has provided the reviewer with a list of all client engagements with periods ending during the year under review and c) has provided the reviewer with any other information requested by the reviewer. For attestation engagements, including financial forecasts or projections, the selection for review are those with report dates during the year under review. (see Appendix B)~~
- g. ~~Take remedial, corrective actions as needed.~~
- h. ~~Provide, for firms participating in or have completed an engagement or report review, the administering entity with an annual representation regarding their accounting and auditing practice. Firms that do not comply with this requirement may be required to have a review earlier than their regularly scheduled review due date.~~

<sup>2</sup> 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.

<sup>3</sup> For purposes of this document, the term peer review refers to system, engagement and report reviews unless specified otherwise.

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i. Understand the AICPA Peer Review Board's (Board) guidance on resignations from the Program issued by Interpretations.

~~3. 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.~~

~~3.4.~~ An accounting and auditing practice for the purposes of these ~~standards~~Standards is defined as all engagements covered by Statements on Auditing Standards (SASs); Statements on Standards for Accounting and Review Services (SSARS);<sup>4</sup> Statements on Standards for Attestation Engagements (SSAEs); and the *Government Auditing Standards* (the Yellow Book), issued by the U.S. General Accounting Office (GAO).

~~4.5.~~ The objectives of the ~~AICPA peer review program~~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.<sup>5</sup> Firms that do not provide any of the services listed in paragraph ~~3.4~~ are not reviewed. System reviews are performed at the reviewed firm's office, however, the ~~AICPA Peer Review Board~~ Board may issue guidance, by Interpretations, when system reviews may be performed at a location other than the reviewed firm's office.~~6-~~ Engagement and report reviews are normally performed at a location other than the reviewed firm's office.

~~5.6.~~ The program is based on the principle that a systematic monitoring and educational process is the most effective way to attain high-quality performance throughout the profession. Thus, it depends on mutual trust and cooperation. The reviewed firm is expected to take appropriate actions in response to deficiencies in its system of quality control, its compliance with that system, or both. These actions will be positive and remedial. Disciplinary actions (including actions that can result in the termination of a firm's enrollment in the peer review program and the subsequent loss of membership in the AICPA and some state CPA societies by its partners and employees) will be taken only for a failure to cooperate, failure to correct material deficiencies or when a firm is found to be

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<sup>4</sup> 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.

<sup>5</sup> Firms that issue compilation reports under SSARS where "Selected Information - Substantially All Disclosures Required are Not Included" are required to have an engagement review.

~~<sup>6</sup> 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.~~

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~~so seriously deficient in its performance, that education and for deficiencies that are so serious that remedial, or corrective actions are not adequate/suitable.~~

## General Considerations

### Enrollment Requirements

~~6.7.~~ Firms (and individuals) enrolled or seeking enrollment in the ~~AICPA peer review program~~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.<sup>7</sup>

### Timing of Reviews

~~7. A firm's initial due date for its peer review is eighteen months from the date it enrolled in the Program or should have enrolled, whichever date is earlier.~~

~~8. If a firm is enrolled in the Program, but does not perform engagements requiring it to undergo a peer review (see paragraph 3), it is not required to undergo a peer review. However, when a firm performs its first engagement requiring a peer review, the firm's due date will be eighteen months from the year-end of that engagement (eighteen months from the report date if it is an attestation engagement including financial forecasts and projections).~~

~~9. A firm's subsequent peer review ordinarily has a due date of three years and six months from the year-end of the previous review.~~

~~10. When a firm, subsequent to the year-end of its report or engagement review, performs an accounting, auditing or attestation engagement that would have required the firm to have a higher level peer review (engagement or system review), the firm should undergo the higher level engagement or system review. That review will be due 18 months from the year-end of the engagement (for financial forecast and projections 18 months from the date of report) requiring a higher level peer review or by the firm's next scheduled due date, whichever is earlier. (See paragraph 4).~~

~~11. The due date for a peer review is the date by which the peer review report, and if applicable, letter of comments, letter of response and the peer reviewer's materials are to be submitted to the administering entity (see paragraph 21).~~

~~12. Peer reviews must cover a current period of one year to be mutually agreed-upon by the reviewed firm and the reviewing firm. Ordinarily, the review should be conducted within three to five months following the end of the year to be reviewed.~~

~~13. A firm is expected to maintain the same year-end on subsequent reviews, (which is three years from the previous year-end). Nevertheless, circumstances may arise that require the firm to change its peer review year-end. In such situations, a firm may do so only with prior approval of the administering entity.~~

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<sup>7</sup> Depending on how a CPA firm is legally organized, its partner(s) could have other names, such as *shareholder*, *member*, or *proprietor*.

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

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

16. If a firm's most recent peer review was under the auspices of the SEC Practice Section (SECPS), it may defer the due date for its next review until three years and six months from the year-end of the SECPS peer review.

## Confidentiality

17.8. A peer review should be conducted in compliance with the confidentiality requirements set forth by the AICPA in the section of the Code of Professional Conduct entitled "Confidential Client Information" (AICPA, *Professional Standards*, vol. 2, ET sec. 301). Except for the information in paragraph 110, 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 or administering entities to anyone not involved in carrying out the review or administering the program, or used in any way not related to meeting the objectives of the program.

~~9. 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

18.40. 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.

19.44. *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,

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intellectually honest, and free of conflicts of interest. The ~~AICPA Peer Review Board~~Board may issue guidance, by Interpretations, related to Independence, Integrity, and Objectivity.<sup>8</sup>

## 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

~~20.19~~ 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

~~21.20~~ 14. Reviews intended to meet the requirements of the ~~AICPA peer review program~~Program should be carried out in conformity with these ~~standards~~Standards under the supervision of a state CPA society or group of state CPA societies (~~synonymous with hereinafter,~~ administering entity) approved by the ~~AICPA Peer Review Board~~Board to administer peer reviews. This imposes an obligation on reviewed firms to arrange, ~~and~~ schedule ~~and complete~~ their reviews in compliance with the procedures established by the ~~state CPA society administering its review~~Board, and to cooperate with the ~~administering entity society~~ and with the ~~AICPA Peer Review Board~~Board in all matters related to the review.

~~22. Entities requesting to administer the Program are required to complete and sign a Plan of Administration (Plan) annually whereby the entity agrees to administer the Program in compliance with these Standards and other guidance established by the Board. Upon receipt of the Plans by the AICPA, including jurisdictions not requesting to administer the Program for their state, the Board annually approves the administering entities for all of the jurisdictions covered by the Program.~~

~~23. This imposes an obligation on the administering entities to ensure that its staff, technical reviewers, committee members, and all others involved in the administration of the Program comply with these Standards and other guidance established by the Board. Administering entities must submit a request to the Board for approval prior to deviating from these Standards or other guidance. Administering entities shall also cooperate with the Board in all matters related to the administration of the Program. Failure to comply with these Standards and other guidance may result in the revocation of the entity’s Plan by the Board.~~

~~24. If an administering entity refuses to cooperate, or is found to be deficient in administering the Program in compliance with these Standards or with other guidance, the Board may decide pursuant to due process procedures whether the administering entity’s Plan should be revoked or whether some other action should be taken.~~

<sup>8</sup> Reviewers should be alert to Peer Review Standards Interpretations developed by the AICPA Peer Review Board for guidance related to independence, integrity and objectivity.

## Organization of the Review Team

25.15. 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 Board~~ to assist its members by forming review teams to carry out peer reviews (an association review). For engagement and report reviews, review teams may be formed by the administering entity if they choose to appoint such teams (hereinafter, committee-appointed review team, also known as a CART review).

26.46. A system review team is comprised of one or more individuals, depending upon the size and nature of the reviewed firm's practice. A review team should be comprised of reviewers with appropriate levels of expertise and experience to perform the review. One member of the system review team is designated the team captain. That individual is responsible for supervising and conducting the review, communicating the review team's findings to the reviewed firm and to the ~~state CPA society administering the review~~ administering entity, and preparing the report and, if applicable, the letter of comments on the review.<sup>9</sup> 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 ~~entity the peer review~~ prior to the commencement of the review.

27. 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 paragraphs 31-35 for a description of the qualifications an individual should possess to serve on a review team.

28.47. 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 ~~entity the peer review~~ prior to the commencement of the peer review.

### Review Team Materials

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

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

## Qualifications for Service as a Reviewer

<sup>9</sup> 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~~ administering entity.

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## General System, Engagement and Report Reviews

31 48. Performing and reporting on a peer review requires the exercise of professional judgment by peers. (See paragraphs 120 99 through 126 405 for a discussion of a reviewer's responsibilities when performing a peer review.) Accordingly, an individual serving as a reviewer (whether for a system, engagement or report review) should—

- a. Be a member of the AICPA in good standing (that is, AICPA membership in active status) licensed to practice as a certified public accountant with a firm enrolled in the ~~AICPA peer review program~~Program or the SEC Practice Section. ~~The firm that the member is associated with—that, if reviewed, should have has~~ received an unmodified report on the review of its system of quality control or an unmodified report on its engagement review for its most recent peer review that was accepted within the last three years and six months or off site peer review.<sup>10</sup> The Board may issue guidance, by Interpretations, related to the definition of acceptance and completion dates on peer reviews. If the individual is associated as a partner with more than one firm, then each of the firms the individual is associated with should have received an unmodified report on the review of its system of quality control or an unmodified report on its engagement review for its most recent peer review that was accepted within the last three years and six months.
- b. Possess current knowledge of applicable professional standards, including quality control and peer review standards. This includes knowledge about current rules and regulations applicable to the industries for which engagements are reviewed. Such knowledge may be obtained from on-the-job training, training courses, or a combination of both.
- c. Have at least five years of recent experience in the practice of public accounting in the accounting or auditing function.<sup>11</sup>
- 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~~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.<sup>12 13</sup> 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

<sup>10</sup> If a firm's most recent review was a report review, then the firm's members are not eligible to perform peer reviews.

<sup>11</sup> 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.

<sup>12</sup>The ~~AICPA Peer Review Board~~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.

<sup>13</sup> A manager or person with equivalent supervisory responsibilities is a professional employee of the firm who has either a continuing responsibility for the overall planning and supervision of engagements for specified clients or authority to determine that an engagement is complete subject to final partner approval if required.

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firm's accounting or auditing engagements or carrying out a quality control function on the firm's accounting or auditing engagements.

~~e. Have completed a peer review training course or courses that meet requirements established by the Board. The Board may issue guidance, by Interpretations, related to specific courses to be taken.~~

~~32. An individual who was previously a team captain or engagement/report reviewer qualified to perform peer reviews that starts, or becomes associated with, a newly formed firm (a firm which has not had a peer review) may serve as a system review team captain, or as an engagement or report reviewer during a transitional period. The transitional period begins with the earlier of the dates of disassociation from the previous firm or when the individual starts or becomes associated with a new firm. The transitional period ends with the earlier of eighteen months from the beginning date or the peer review due date of the new firm. In no circumstances will the transitional period exceed eighteen months. The previous firm should have received an unmodified report on its most recently accepted peer review, and the individual should meet all of the other qualifications for service as a system review team captain, or as an engagement or report reviewer.~~

~~33.19. 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 administering entity has the authority to decide whether a reviewer's or review team's experience is sufficient to perform a particular review.~~

~~34.20. An individual may not serve as a peer reviewer if his or her ability to practice public 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.~~

~~35.24. If required by the nature of the reviewed firm's practice, individuals with expertise in specialized areas who are not CPAs may assist the review team in a consulting capacity. For example, computer specialists, statistical sampling specialists, actuaries, or experts in continuing professional education (CPE) may participate in certain segments of the review.~~

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

## System Review Team Captain

~~36.23. In addition to adhering to the general requirements for a reviewer, an individual serving as a team captain on a system review should a. B be a partner of an enrolled firm that has received an unmodified report on a review of its system of quality control for its accounting and auditing practice for its most recently completed peer review that was accepted within the last three years and six~~

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~~months. If the individual is associated as a partner with more than one firm, then each of the firms the individual is associated with should have received an unmodified report on a review of its system of quality control for its accounting and auditing practice for on its most recently completed peer review of its accounting and auditing practice that was accepted within the last three years and six months.~~

~~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

~~37 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 in all material respects.~~

~~c. The reviewed firm has demonstrated the competencies necessary to perform accounting, auditing and attestation engagements in accordance with professional standards in all material respects. Competencies are the knowledge, skills and abilities to perform an accounting, auditing or attestation engagement.~~

~~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.~~

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## Peer Review Risk Factors

38.27. 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 lack of compliance with that system, and deficiencies in the reviewed firm's competencies demonstrated to perform accounting and auditing engagements, or a combination thereof. ~~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 in the reviewed firm's competencies demonstrated to perform accounting and auditing engagements, or a combination thereof.  
~~or both.~~
- c. Reaches an inappropriate decision about the matters findings to be included in, or excluded from, the report or letter of comments, or about whether to issue a letter of comments.

39.28. 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 in all materials respects, that the reviewed firm's system of quality control will not prevent such failure, or both.<sup>14,15</sup>
- b. The risk (*detection risk*) that the review team will fail to detect the design or compliance deficiencies in the reviewed firm's system of quality control that either result in the firm having less than reasonable assurance of conforming with professional standards in all material respects, ~~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 in all material respects or the reviewed firm's competencies demonstrated to perform accounting and auditing engagements.

40.29. 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

41. The objectives of a system review are discussed in paragraph 37. A system review is designed to test a reasonable cross-section of the firm's engagements with a focus on high-risk engagements in addition to significant risk areas where the possibility exists of engagements being

<sup>14</sup>*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.

<sup>15</sup>*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.

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performed and/or reported on that are not in accordance with professional standards in all material respects. An engagement is ordinarily considered substandard when deficiencies, individually or in aggregate exist, that are material to understanding the report or the financial statements accompanying the report, or represents omission of a critical accounting, auditing, or attestation procedure required by professional standards. A system review is not designed to test every engagement or compliance with every professional standard and every detailed component of the firm's system of quality control.

42 ~~30~~. A system review should include the following procedures:

a. Plan the review, as follows.

1. ~~1.~~ Obtain the required written representation from the reviewed firm. (see paragraph 2f).

4.2. ~~2.~~ Obtain a sufficient understanding of the nature and extent of the firm's accounting and auditing practice to plan the review. ~~(see paragraph 52)40.~~

2.3. ~~3.~~ Obtain a sufficient understanding of the design of the firm's system of quality control, including an understanding of the monitoring procedures performed since the prior review, to plan the review. ~~(see paragraph 53)44~~

4. ~~4.~~ Assess the peer review risk. ~~(see paragraphs 54 and 55) 42 and 43~~

4.5. ~~5.~~ Use the knowledge obtained from the foregoing to select the offices and the engagements to be reviewed, and to determine the nature and extent of the tests to be applied in the functional areas. ~~(see paragraphs 56 through 62) 44 and 49.~~

b. Perform the review, as follows.

1. ~~1.~~ Review the required written representation from the reviewed firm. (see paragraph 2f).

9.2. ~~2.~~ Review the firm's design and compliance ~~by the firm~~ with its system of quality control. The review should cover all organizational or functional levels within the firm. ~~(see paragraph 53)~~

2.3. ~~3.~~ Review significant risk areas on selected engagements, including the relevant accounting, audit and attestation documentation working paper files and reporting reports. ~~(see paragraphs 63 through 68) 50 and 54.~~

2. ~~4.~~ Reassess the adequacy of the scope of the review based on the results obtained to determine whether additional procedures are necessary. ~~(see paragraph 67)~~

3. ~~5.~~ HaveConduct an exit conference with senior members of the reviewed firm ~~and at least the team captain~~ to discuss the review team's comments, deficiencies noted findings and recommendations and the type of report it will issue. ~~(see paragraph 69) 55.~~

4. ~~6.~~ Prepare a written report on the results of the review and, if applicable, a letter of comments. ~~(see paragraphs 86 72 through 96 79).~~

5. ~~7.~~ Review and provide comments to the reviewed firm on it's the firm's response to the report and letter of comments, if any. ~~(see paragraph 97) 80.~~

43 ~~31~~. The AICPA Peer Review BoardBoard has authorized the issuance of programs- materials and checklists, including engagement review checklists, to guide team captains and other members of the review team in carrying out their responsibilities under these ~~s~~Standards. Failure to complete all relevant materials programs and checklists in a professional manner may create the presumption that the review has not been performed in conformity with these ~~s~~Standards. The Board emphasizes that failing to select required engagements as described in the Standards or Interpretations may create the presumption that the review has not been performed in conformity with the Standards. In addition, any other engagement selection guidelines used that are not consistent with those in the Standards,

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Interpretations or guidance should not be incorporated in the engagement selection process or this may also create the presumption that the review has not been performed in conformity with the Standards. Such a review cannot be accepted as meeting the requirements of the Program peer review program. System reviews are subject to oversight by the AICPA and the administering entity.

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

## Scope of the Review

~~32. The review should cover a firm's accounting and auditing practice as defined in paragraph 4. 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.~~

~~45~~ 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. The review should cover the professional aspects of a firm's accounting and auditing practice as defined in paragraph 3. 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 forecasts or projections, the selection for review ordinarily should be those with report dates during the year under review. If the current year's engagement is has not been not completed and issued, and a comparable engagement within the peer review year is not available, the prior year's engagement should be reviewed. If the subsequent year's engagement has been completed; and issued, the review team should consider, based on its assessment of peer review risk, whether the more recently completed and issued engagement should be reviewed instead. Review team members should not have contact with or access to any client of the reviewed firm in connection with the peer review.

~~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.~~

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

~~47~~ 35. The team captain should obtain the prior peer review 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 from the reviewed firm. The team captain should consider whether the matters discussed in those documents require additional emphasis in the current review and, in the course of the review, should evaluate the actions of the firm in response to the prior report and letter of comments.

~~48~~ 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

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for the peer review. In such circumstances, an appropriate scope is one where a reasonable cross section of the firm's practice is covered 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 may not have to modify the report for a scope limitation. In all other circumstances, the review team should carefully assess the effects the divestiture has on the scope of the peer review. A review team captain who is considering whether a peer review report should be modified for a scope limitation due to a divestiture should consult with the state CPA society administering the review administering entity. An illustration of a modified report for a scope limitation on a system review is included in Appendix J.

49. The reviewed firm should make available to the reviewer communication from or the results of any investigation within the three years preceding the firm's current peer review year-end by the state board of accountancy, AICPA or state CPA society ethics committee, any other government agency or any other organization that has the authority to regulate accountants in connection with the quality of the firm's accounting, auditing, or attestation practice, whether the investigation relates to the firm or its professional personnel. If the investigation is open or deferred due to pending litigation the reviewed firm should inform the reviewer as to the nature of the investigation.

50 37. A reviewed firm may request may have legitimate reasons for not permitting the working papers for certain that an engagement(s)-, be excluded from the scope of peer review. There may be legitimate reasons for this request, such as litigation or a request by the firm's client. However, the exclusion of an engagement from possible selection automatically results in a scope limitation in the peer review report. The only exception to the automatic scope limitation is when the engagement is the subject of litigation/investigation related to accounting or auditing matters, and the engagement has been referred to the AICPA's or state CPA society's professional ethics committee for investigation, which the firm may do itself. 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 peer review team would then have to be able to conclude that the engagement(s) referred to the AICPA's or state CPA society's professional ethics committee does not materially affect the engagement selection of the peer review. To reach such a conclusion, the review team needs to consider the number, size, and relative complexity of the excluded engagement(s), 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 engagement(s).

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

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

~~52.40.~~ 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.~~

~~53.41.~~ 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. It also states that the nature, extent, and formality of a firm's quality control policies and procedures should be appropriately comprehensive and suitably designed in relation to the firm's size, the number of its offices, the degree of operating autonomy allowed its personnel and its offices, the knowledge and experience of its personnel, the nature and complexity of the firm's practice, and appropriate cost-benefit considerations. The review team should obtain a sufficient understanding of the reviewed firm's system of quality control with respect to each element to plan the review. The understanding should include knowledge about the design of the reviewed firm's quality control policies and procedures in accordance with quality control standards established by the AICPA and how the policies and procedures identify and mitigate risk of material noncompliance with professional standards. This knowledge is ordinarily obtained through such procedures as inquiries of appropriate management and supervisory personnel, ~~as well as~~ and reviewing the firm's responses to a questionnaire developed by the ~~AICPA Peer Review Board~~Board.

## Assessing Peer Review Risk

~~54.42.~~ 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).

~~55.43.~~ When assessing risk, the review team should evaluate the reviewed firm's quality control policies and procedures over its accounting and auditing practice in relation to the requirements

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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

~~56.44.~~ Based on its understanding of the reviewed firm's accounting and auditing practice, ~~and~~ system of quality control, and its assessment of peer review risk, the review team should consider ~~whether any what~~ modifications to the ~~materials programs~~ and checklists issued by the ~~AICPA Peer Review Board Board~~ are appropriate. The team captain should then develop a general plan for ~~the~~ conducting ~~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 in all material respects. In addition, compliance tests should be tailored to determine whether the firm has demonstrated the competencies necessary to perform accounting and auditing engagements in accordance with professional standards in all material respects. Such tests should be performed at the practice office(s) visited and should relate either to broad functions or to individual engagements. The tests should include the following.

- a. Review significant risk areas (see paragraph 64) on selected engagements, including accounting and auditing documentation, 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

~~57.45.~~ Visits to practice offices should be sufficient to provide the review team with a reasonable basis for its conclusions regarding whether the reviewed firm's quality control policies and procedures are adequately communicated throughout the firm and whether its system of quality control was complied with during the year under review based on a reasonable cross section of the reviewed firm's accounting and auditing practice, with greater emphasis on those offices with higher assessed levels of peer review risk. Examples of the factors to consider when assessing peer review risk at the office level include the following:

- a. The number, size, and geographic distribution of offices
- b. The degree of centralization of accounting and auditing practice control and supervision

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- c. The review team's evaluation, if applicable, of the firm's monitoring procedures
- d. Recently merged or recently opened offices
- e. The significance of industry concentrations and of specialty practice areas, such as governmental compliance audits or regulated industries, to the firm and to individual offices
- f. Extent of non-audit services to audit clients
- g. Significant clients' fees to a practice office(s) and a partner(s)

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

## Selection of Engagements

58.46. 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 and whether the firm has demonstrated the competencies necessary to perform accounting and auditing engagements in accordance with professional standards in all material respects. ~~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.~~

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

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

~~48.~~ ~~The AICPA Peer Review Board may, from time to time, by Interpretations, require that specific types of engagements be selected for review.<sup>16</sup> 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.~~

61.49. The process of engagement selection, except as noted in paragraph 62, like office selection, is not subject to definitive criteria. Nevertheless, if the team captain finds that meeting all of the preceding criteria results in the selection of an inappropriate scope of the firm's accounting and auditing practice, the team captain should may want to consult with the ~~state CPA society~~

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<sup>16</sup> ~~Reviewers should be alert to Peer Review Standards Interpretations developed by the AICPA Peer Review Board that might affect the engagements selected for review.~~

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~~administering the review~~ administering entity 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.)~~

~~a. Significant risk areas have appropriate coverage. See paragraph 64.~~

~~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~~

~~62. The Board may, from time to time, by Interpretations and guidance, require that specific types and/or number of engagements be selected for review.~~

## Extent of the Review of Engagements

~~63. 50. The review of engagements should include the review of financial statements, accountants' reports, accounting and audit documentation ~~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.~~~~

~~64. Audit engagements have areas where risk may be inherently significant such as, but not limited to fraud considerations, use of estimates, emerging issue matters and assertions which are difficult to audit. The review team's procedures should include determining whether the reviewed firm has appropriately:~~

~~a. Identified the significant risk areas on each audit engagement selected for the peer review,~~

~~b. Performed the necessary audit procedures related to the identified significant risk areas, and~~

~~c. Documented the auditing procedures performed in these significant risk areas.~~

~~d. The Board may, from time to time, by Interpretations and guidance, require that specific audit areas be selected for review.~~

~~65. 54. For each engagement reviewed, the review team should document whether anything came to its attention that caused it to believe the following.~~

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

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

~~c. The report is not presented in accordance with professional standards in all materials respects.~~

~~d. The documentation on the engagement did not support the report issued.~~

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

f. The firm has not demonstrated the competencies necessary to perform the engagement in accordance with professional standards in all material respects.

66.52. 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) ~~(MFC)~~. 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). Reviewers or administering entities should not instruct reviewed firms to recall accounting or auditing reports, to have them reissued, or to correct previously issued engagements as those are decisions for the firm to make. However, the firm’s actions may impact other corrective actions the administering entity’s peer review committee may impose.

67.53. 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~~ administering entity. The review team should also consider whether it is necessary to expand the scope of the review by selecting additional engagements to determine the extent and cause of significant departures from professional standards.

68.54. In evaluating the reviewed firm’s response(s) to the MFC(s) or other questions raised by the reviewer, the review team should recognize that it has not audited the financial statements in question in accordance with generally accepted auditing standards (GAAS) and that it has not had the benefit of access to client records, discussions with the client, or specific knowledge of the client’s business. Reviewers and reviewed firms should understand that professional judgement often becomes a part of the process and each party has the right to challenge each other on such matters. Nevertheless, a disagreement on the resolution of the matter may persist in some circumstances, ~~and~~ ~~the reviewed firm~~ or reviewer should be aware that they may request the ~~state CPA society administering the review~~ administering entity’s peer review committee to resolve the disagreement. If the administering entity’s full peer review committee is unable to resolve the disagreement, they may refer unresolved matters to the ~~AICPA Peer Review Board~~ Board for a final determination. Only the administering entity’s peer review committee will be responsible for determining whether a disagreement still exists, or whether the reviewed firm or review team are not cooperating, in order to refer the matter to the Board.

## Exit Conference

69.55. 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. The team captain should be physically present at the exit conference, unless the system review is

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performed under Interpretations of the Standards. The review team should also communicate to senior members of the reviewed firm that the firm may be required to participate in certain corrective actions (also known as, follow-up actions) to demonstrate that they have corrected the deficiencies and/or comments noted during a peer review. ~~which~~ The exit conference may also be attended by representatives of ~~the administering entity, state CPA society administering entities,~~ the ~~AICPA Peer Review Board~~ Board, ~~AICPA staff,~~ or other Board authorized organizations with oversight responsibilities. The reviewed firm is entitled to be informed at the exit conference about any matters that may affect the peer review report, ~~including and about~~ the ~~deficiencies, comments findings~~ and recommendations that will be included in the ~~report and~~ letter of comments. Accordingly, except in rare circumstances that should be explained to the reviewed firm, the exit conference should be postponed if there is any uncertainty about the report to be issued or the matters to be included in the ~~report or~~ letter of comments. The exit conference is also the appropriate vehicle for providing suggestions to the firm that do not have an effect on the report or letter of comments.

## Performing Engagement Reviews

### Objectives

~~70.56.~~ 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 in all material respects; 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 Government Auditing Standards (the Yellow Book), issued by the U.S. General Accounting Office (GAO), 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

~~71.57.~~ 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 ~~7 through 16 33 and 34~~). Engagements subject to review ordinarily should be those with periods ending during the year under review. For attestation engagements, including financial forecasts or projections, the selection for review ordinarily should be those engagements with report dates during the year under review. The reviewed firm ~~shall~~should provide summarized information showing the number of its ~~compilation, accounting and review engagements~~ and attestation engagements, classified into major industry categories. That information should be provided for each partner, ~~or individual if not a partner,~~ of the firm who is responsible for the issuance of reports on such engagements. On the basis of that information, the reviewer or the ~~state CPA society administering the review~~administering entity ordinarily should select the types of engagements to be submitted for review, in accordance with the following guidelines.

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- a. One engagement should be selected from each of the following areas of service performed by the firm:
  1. Review of historical financial statements.
  2. Compilation of historical financial statements, with disclosures.
  3. Compilation of historical financial statements that omits substantially all disclosures.
  4. Attestation.
- b. One engagement should be selected from each partner, or individual of the firm if not a partner, responsible for the issuance of reports listed in item *a* above.
- c. Ordinarily, at least two engagements should be selected for review.

The preceding criteria are not mutually exclusive. ~~One~~ One of every type of engagement that a partner, or individual if not a partner, responsible for the issuance of the reports listed in item a above performs does not have to be reviewed as long as, for the firm taken as a whole, all types of engagements noted in item *a* above performed by the firm are covered.

~~72~~ 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.

~~73~~ 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 on the engagements submitted for review, and reviewing the documentation required by SSARS and the SSAEs submitted by the reviewed firm. In addition, an engagement review includes reviewing required representations submitted by the firm (see paragraph 2f), the firm's prior peer review report, and if applicable, letter of comments and letter of response.

~~74~~ 60. An engagement review does not include a review of the documentation working papers prepared on the engagements submitted for review (other than the documentation referred to in paragraphs ~~71 through 73~~ 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 conform with the applicable requirements of SSARS and the SSAEs in all material respects.

~~75~~ 64. 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 final peer review report, to resolve questions raised during in the review.

~~76~~ 62. The reviewer performing an engagement review should document the work performed using the programs materials and checklists specified in guidance issued by the AICPA Peer Review Board for that purpose. Failure to complete all relevant programs materials and checklists in a professional manner may create the presumption that the review has not been performed in conformity with these standards. Such a review may not cannot be accepted as meeting the

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requirements of the peer review program. Engagement reviews are subject to oversight by the AICPA and the administering entity.

~~77~~ ~~63~~. Compliance with the positive enforcement program of a state board of accountancy does not constitute compliance with the AICPA practice-monitoring requirement for engagement reviews.

## Performing Report Reviews

### Objectives

~~78~~ ~~64~~. The objective of a report review is to enable the reviewed firm to ~~enhance~~ ~~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. The reviewer provides comments and identifies those considered significant. Firms required to have a report review may elect to have a system or engagement review.

### Basic Requirements

~~79~~ ~~65~~. The criteria for selecting the peer review year-end and the period to be covered by a report review are the same as those for a system review (see paragraphs ~~7 through 16~~ ~~33 and 34~~) and an engagement review. Engagements subject to review ordinarily should be those with periods ending during the year under review. The reviewed firm shall provide summarized information showing the number of compilation engagements under SSARS, 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, or individual if not a partner, of the firm who is responsible for the issuance of reports on such engagements. On the basis of that information, the reviewer or the ~~state CPA society administering the review~~ administering entity ordinarily should select the types of engagements to be submitted for review, in accordance with the following guidelines:

- a. One engagement should be selected from each partner, or individual if not a partner, of the firm responsible for the issuance of compiled financial statements that omit substantially all disclosures.
- b. Ordinarily, at least two engagements should be selected for review.

~~80~~ ~~66~~. For each engagement selected for review, the reviewed firm shall submit the appropriate financial statements and the accountant's report, masking client identity if it desires, along with specified background information and representations about each engagement.

~~81~~ ~~67~~. A report review consists of reading the financial statements submitted by the reviewed firm and the accountant's report thereon, together with certain background information and representations provided by the reviewed firm on the engagements submitted for review. In addition, a report review includes reviewing required representations submitted by the firm (see paragraph 2f) and, ~~including~~ the firm's prior peer review report, and if applicable, letter of comments and letter of response.

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~~82~~ 68. A report review does not include a review of the documentation working papers (except as noted in paragraphs 80 and 81 and Interpretation(s) issued by the Board regarding compilations where engagement letters are issued instead of reports) prepared on the engagements submitted for review, tests of the firm's administrative or personnel files, interviews of selected firm personnel, or other procedures performed in a system or engagement review. Accordingly, a report review does not provide the reviewer with a basis for expressing any form of assurance on the firm's system of quality control for its accounting practice.

~~83~~ 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 final peer review report, to resolve questions raised in the review and to discuss comments and recommendations to be included in the report.

~~84~~ 70. The reviewer performing a report review should document the work performed using the programs— materials and checklists specified in guidance issued by the AICPA Peer Review Board for that purpose. Failure to complete all relevant materials 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 may not 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.

~~85~~ 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

~~86~~ 72. On a system review, the team captain should furnish the reviewed firm with a written report and, if applicable 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 letterhead of the team captain's firm performing the review. 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.

~~87~~ 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 administering entity that the review has been performed completed and should submit to that state CPA society administering entity within thirty days of the exit conference date or by the firm's peer review due date, whichever date is earlier, a copy of the report and letter of comments, if applicable any, and the documentation working papers specified in the programs— materials and checklists issued by the AICPA Peer Review Board.

~~88~~ 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 administering entity within thirty days of the date it received the report and letter of comments or by the firm's peer review due date, whichever date is

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earlier. Prior to submitting the response to the ~~state CPA society administering the review~~ administering entity, the reviewed firm should submit the response to the team captain for review and comment.

## Reports on System Reviews

~~89~~ 75. The written report on a system review should—

- ~~a. Indicate the scope of the review, including any limitations thereon.~~
- a. State that conformity with professional standards applicable to the firm's accounting and auditing practice is the responsibility of firm's management.
- ~~b. Describe the purpose of a system of quality control for an accounting and auditing practice.~~
- e.b. 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.
- ~~c. State that the review was conducted in accordance with standards established by the Peer Review Board of the AICPA.~~
- e.d. Describe the general procedures performed on a system review, the peer review process for system reviews, including the process for engagement selection. If the firm performs any engagements required to be selected by the Board in Interpretations, the engagement(s) selected for review should be identified in the report.
- ~~f. Describe the limitations of a system of quality control.~~
- e. State that the reviewer's responsibility is to express an opinion on whether the firm has demonstrated the competencies necessary to perform accounting and auditing engagements in accordance with professional standards in all material respects and on the design and compliance with the firm's system of quality control.
- g.f. 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.g. Refer to the letter of comments if a letter of comments is issued along with an unmodified or modified or adverse report. The letter of comments should not be referred to in an unmodified report.
- h. State if applicable, the reason(s) for a modified or adverse report. The reasons should include a systemically written description of the deficiencies and the reviewing firm's recommendations.
- i. Identify, for any deficiencies included in the report, any that were also made in the report or letter of comments issued on the firm's previous peer review.
- j. Identify, for any deficiencies included in the report, those engagements that are required to be selected by the Board in Interpretations.
- k. Identify any engagements as substandard (see paragraph 41) by its industry and level of service.
- l. Identify for scope limitations the industry and level of service for the engagement excluded
- m. Include deficiencies and recommendations that are clearly understandable not only to the reviewed firm but to the general public.

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~~90~~ 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 ~~C~~ B, “Considerations Governing the Type of Report Issued on a System Review.” The standard form for an unmodified report is illustrated in Appendix ~~D~~ C, “Illustration of Standard Form for an Unmodified Report on a System Review.” Illustrations of modified and adverse reports are presented in Appendices ~~G, J and M~~ D, “Illustrations of a Modified and Adverse Reports on a System Review,” “Illustration of a Modified Report for a Scope Limitation on a System Review” and “Illustration of an Adverse Report on a System Review,” respectively.

## Letters of Comments on System Reviews

~~91~~ 77. A letter of comments should only 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 in all material respects, but were not of such significance to cause the report to be modified or adverse. The letter should also include comments on such matters even if they did not result in engagement deficiencies on the engagements reviewed, such as when one or more of the functional elements of a firm’s system of quality control could be more suitably designed for a particular firm (see paragraph 53). Instances of nonconformity with professional standards 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 of comments should be described as such.~~ 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.

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

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

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

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g. Identify any engagement as substandard (see paragraph 41), by its industry and level of service.

94. Although isolated instances of noncompliance with the firm's quality control policies and procedures ordinarily would not be included in the report or letter of comments, their nature, importance, causes (if determinable), and implications for the firm's system of quality control as a whole should be evaluated in conjunction with the review team's other findings before making a final determination. The reviewer may conclude that the isolated deficiency impacts the type of report to be issued when combined with other deficiencies or comments. However, if an engagement is deemed to be substandard (see paragraph 41), at a minimum it should be included as a comment in the letter of comments, even if the matter is isolated.

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

96 79. The letter of comments on a system review should be prepared in accordance with Appendices ~~\* E, E, H and K~~, "Guidelines for and Illustration of a Letter of Comments on a System Review", "Illustration of a Letter of Comments to a Modified Report on a System Review", "Illustration of a Letter of Comments to a Modified Report for a Scope Limitation on a System Review" respectively.

## Letters of Response on System Reviews

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

## Reporting on Engagement Reviews

### General

98. On an engagement review, the reviewer should furnish the reviewed firm with a written report and, if applicable, a letter of comments within thirty days of the review of engagements or by the firm's peer review due date, whichever is earlier. A report on a review performed by a firm is to be issued on the letterhead of the firm performing the review. A report by a review team formed by an association of CPA firms is to be issued on the letterhead of the reviewer's firm performing the review. All other reports are to be issued on the letterhead of the administering entity of the review. The report on an engagement review ordinarily should be dated as of the date of the completion of the peer review procedures.

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

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

### Reports on Engagement Reviews

101~~84~~. The written report on an engagement review should—

- a. State that the review was conducted in accordance with standards established by the Peer Review Board of the AICPA.
- b. Describe the limited scope of the review and disclaim an opinion or any form of assurance about the firm's system of quality control for its accounting practice.
- c. Indicate whether anything came to the reviewer's attention that caused the reviewer to believe that the financial statements or information and the accountant's reports 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 engagements 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.~~

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- d. Refer to the letter of comments if a letter of comments is issued along with an unmodified or 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.~~
- e. If applicable, the reason(s) for a modified or adverse report. The reasons should include a description of the deficiencies and the reviewing firm's recommendations.
- f. Identify, for any deficiencies, any that were also made in the report or letter of comments issued on the firm's previous review.
- g. Identify any engagements as substandard (see Appendix O) by industry and level of service.
- h. Include deficiencies and recommendations that should be clearly understandable not only to the reviewed firm but to the general public.

102 82. In deciding on the type of report to be issued, the reviewer should be guided by the considerations in Appendix O G, "Considerations Governing the Type of Report Issued on an Engagement Review." For illustrations, see Appendices P, S and V, "Illustration of Standard Form for an Unmodified Report on an Engagement Review," in Appendix QH, and Appendix T I, "Illustrations of a Modified and Adverse Reports on an Engagement Review," "Illustration of an Adverse Report on an Engagement Review", respectively.

## Letters of Comments on Engagement Reviews

103 83. A letter of comments should only be issued in connection with an engagement review ~~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 ~~comments 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~~ administering entity can evaluate whether the actions taken or planned, including timing of the planned actions, by the reviewed firm appear appropriate in the circumstances. A letter of comments should not be prepared when a modified report is issued where all of the deficiencies are matters causing the report to be modified or when an adverse report is issued, as all deficiencies and recommendations in these cases should be contained in the report.

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

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

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~~105.84.~~ The letter of comments on an engagement review should be prepared in accordance with Appendices ~~\* Q and T~~, ~~“Guidelines for and Illustration of a Letter of Comments on an Engagement Review.”~~, and ~~Illustration of a Letter of Comments to a Modified Report, respectively.~~

## Letters of Response on Engagement Reviews

~~106.85.~~ The reviewed firm should respond in writing to the ~~review team’s deficiencies and comments findings~~ and ~~related~~ recommendations ~~identified by the review team on matters~~ in the ~~report and~~ letter of comments, ~~if applicable~~. The response should be addressed to the ~~state CPA society administering the review~~ ~~administering entity’s peer review committee~~ and should describe the actions taken or planned (~~including timing of the planned actions~~) by the reviewed firm with respect to each matter in the ~~report and~~ letter of comments, ~~if applicable~~. ~~Reviewers and reviewed firms should understand that professional judgement often becomes a part of the process and each party has the right to challenge each other on such matters. If after a discussion with the peer reviewer, the reviewed firm disagrees with one or more of the deficiencies or comments, the reviewed firm should contact the administering entity for assistance in the matter. If the reviewed firm still disagrees with one or more of the deficiencies or comments, its response should describe the reasons for such disagreement. 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~~ ~~the administering entity~~. An illustration of a response by a reviewed firm for an engagement review is included in Appendices ~~\* R, U and W~~, ~~K~~, ~~“Illustration of a Response by a Reviewed Firm to a Letter of Comments on an Engagement Review.”~~, ~~Illustration of a Response by a Reviewed Firm to a Modified Report and Letter of Comments on an Engagement Review, and Illustration of a Response by a Reviewed Firm to an Adverse Report on an Engagement Review, respectively.~~

## Reporting on Report Reviews

~~86.107.~~ The written report on a report review should-

- a. State that the review was conducted in accordance with standards established by the Peer Review Board of the American Institute of Certified Public Accountants.
- b. Describe the limited scope of the review and disclaim an opinion or any form of assurance about the firm’s system of quality control for its accounting practice.
- c. Include a list of comments and recommendations that should be considered by the reviewed firm based on the review of the engagements ~~and representations made by the firm (see paragraphs 80 and 81)~~. The list should provide reasonably detailed descriptions of the comments and recommendations so that the reviewed firm can ~~take appropriate actions under the circumstances. evaluate what appropriate actions should be taken under the circumstances.~~ ~~The comments and recommendations should be discussed and agreed upon with the firm prior to the issuance of the final written report. The recommendations in the final written report should be very specific (not a series of choices, which can be discussed previously) as to the appropriate action(s) the reviewed firm should take to correct the matters as described in the comments or significant comments. The recommendation(s) should assist the firm in preventing similar deficiencies on future engagements.~~

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d. Identify any comments that are significant. The Board may issue guidance, by Interpretations, for guidance on significant matters/comments on report reviews.

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

f. Ordinarily be dated as of the date of the completion of the review procedures.

g. A report on a review performed by a firm is to be issued on the letterhead of the firm performing the review. A report by a review team formed by an association of CPA firms is to be issued on the letterhead of the reviewer's firm performing the review. All other reports are to be issued on the letterhead of the administering entity of the review.

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

109.88 The report on a report review should be prepared in accordance with Appendix X F, "Illustration of a Report on a Report Review."

## Acceptance of System, Engagement, and Report Reviews

110.89. 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~~ administering entity as meeting the requirements of the AICPA peer review program. Neither the administering entity ~~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 most recently accepted ~~last~~ peer review.
- d. If applicable, the termination of the firm from the program.
- e. Due date of the subsequent peer review

111.90. A committee or report acceptance body (hereinafter, the committee) should be appointed by each participating ~~administering entity 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

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procedures issued by the ~~AICPA Peer Review Board~~ 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.

~~112. 91~~ The committee's responsibilities ~~on~~ ~~system and engagement reviews~~ ~~include are is to consider whether~~ —

- a. ~~Considering whether~~ ~~the~~ review has been performed in accordance with these standards and related guidance materials.
- b. ~~Considering whether~~ ~~the~~ report, ~~and if applicable~~ letter of comments, ~~if any~~, and the response thereto are in accordance with these standards and related guidance materials, including an evaluation of the adequacy of the corrective actions the reviewed firm has represented that it ~~has taken or~~ will take in its letter of response.
- c. ~~Determining whether~~ ~~it~~ should require any remedial, corrective actions in addition to those described by the reviewed firm in its letter of response. Examples of such corrective actions, ~~include but are not limited to~~ ~~are~~ requiring certain individuals to obtain specified kinds and ~~specified~~ amounts of continuing professional education, requiring the firm to carry out more comprehensive monitoring procedures, or requiring it to engage another CPA to perform ~~preissuance or post-issuance~~ reviews of financial statements, ~~and~~ reports ~~and accounting and audit documentation~~, ~~or~~ to attempt to strengthen ~~its~~ ~~the firm's~~ professional staff.
- d. ~~Ensuring that all firms within their jurisdiction have timely peer reviews and keeping track of the timing of the completion of corrective actions by all firms that the committee has required to take corrective actions, including those that are overdue. 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.~~
- e. ~~Ensuring that reviews are presented to a report acceptance body in a timely manner, ordinarily within 120 days of receipt of the report, letter of comments and letter of response, if applicable from the reviewed firm.~~

~~113. 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 revisions ~~to~~ the report, the letter of comments, or the reviewed firm's response, ~~thereto~~. Such inquiries or actions by the committee should be made with the understanding that the peer review program is intended to be positive and remedial in nature, and is based on mutual trust and cooperation. Accordingly, in deciding on the need for and nature of any ~~additional~~ corrective actions ~~or monitoring procedures~~, the committee should consider the nature, significance, ~~and for system reviews, the~~ pattern, and pervasiveness of engagement deficiencies. It should evaluate whether the recommendations of the review team appear to address those deficiencies adequately and whether the reviewed firm's responses to those recommendations appear comprehensive, genuine, and feasible.

~~114. 93.~~ If, after consideration of items ~~in paragraph 112. 91a through 91d above~~ on system and engagement reviews, the committee concludes that no ~~additional~~ corrective actions are deemed necessary, the committee ~~should~~ ~~will~~ accept the report and so notify the reviewed firm. If ~~additional~~ corrective actions ~~in addition to those described by the firm in its letter of response by the reviewed~~

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~~firm or if monitoring procedures~~ are deemed necessary, the firm will be required to evidence its agreement to perform these corrective action(s) in writing before the report is accepted.

115.94. 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<sup>17</sup> should be delegated the authority from the committee to accept report reviews on the committee's behalf when the technical reviewer determines there are no significant matters or comments~~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. In addition, the committee's responsibilities on all report reviews include ensuring that reviews are presented to a report acceptance body in a timely manner, ordinarily within 120 days of receipt of the report from the reviewed firm and that for report reviews that do not require committee consideration should be accepted by the technical reviewer within 45 days of receipt of the report from the reviewed firm.

116.95. 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 111.94 through 114.93 and from 120.99 through 126.405 considering the reasons why the report review has been submitted to it for acceptance.

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

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

119.98. If a decision is made by the hearing panel to terminate a firm's enrollment in the AICPA peer review program~~Program~~, the firm will have the right to appeal to the AICPA Joint Trial Board

<sup>17</sup> 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.

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for a review of the hearing panel's 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

120 99. 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 materials on the review, but also to the timely completion of any additional actions necessary to complete the review, such as completing omitted documentation of the work performed on the review or resolving questions raised by the committee or technical reviewer accepting the review as well as the Board and AICPA staff.

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

- a. Submitting evidence of attendance at ~~Attendance at~~ a future reviewer's training or accounting or auditing course(s). ~~and receipt of a satisfactory evaluation from the instructor of the course~~
- b. Having ~~Committee~~ oversight on the next review(s) performed by the reviewer at the expense of the reviewer's firm (including out-of-pocket expenses, such as travel cost and per diem charges at the team captain rate established by the state CPA society ~~administering entity~~ for the review teams it forms)
- c. Completion of ~~Submitting all reports, letters of comments, and appropriate documentation on~~ all outstanding peer reviews before performing another review
- d. Having ~~Pre~~issuance review(s) of the report, letter of comments, and peer review documentation ~~working papers~~ on future reviews by an individual acceptable to the committee chair or designee who has experience in performing peer reviews

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

123 402. 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 in the Program, unless the actions are specific to the SECPS ~~Peer Review~~ Program, and need not be ratified by the AICPA Peer Review Board ~~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.

124 403. If a reviewer refuses to cooperate with the committee or Board, ~~fails to revise peer review documents as requested by the committee or Board,~~ fails to correct ~~material~~ performance deficiencies, or is found to be ~~seriously~~ deficient in his or her performance, and education or other

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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. The Board may decide, with or without committee recommendation pursuant to due process procedures that it has established, to consider whether the reviewer should be prohibited from performing reviews or whether some other action should be taken.

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

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

## Qualifications of Committee Members

127 406. 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 accepted system, or engagement ~~or off site peer~~ review.<sup>18</sup>
- c. Trained in the Standards and guidance of the Program by completing the RAB training course or course that meets the team captain training requirements established by the Board within three years prior to serving on the committee or during the first year of service on the committee.

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

## Qualifications of Technical Reviewers

<sup>18</sup> If a committee member's firm's most recent review was a report review, then the member is not eligible to be charged with the responsibility for acceptance of any peer reviews.

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129. Each technical reviewer charged with the responsibility for performing technical reviews should -

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

## Effective Date

130 407. The effective date for this Standard is for peer reviews commencing on or after ~~January 1, 2004~~January 1, 2005. Early implementation is not allowed.

## ~~131.108.~~ Appendix A Independence Requirements

### Reciprocal Reviews

1. Reciprocal reviews are not permitted. This means that a firm may not perform a review of the firm that performed its most recent review. It also means that no professional may serve on a review team carrying out a review of a firm whose professional personnel participated in the most recent review of that professional's firm. [The Board may, from time to time, issue Interpretations and guidance related to independence.](#)

### Relationships With Clients of the Reviewed Firm

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

### Relationships With the Reviewed Firm

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

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

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

## 132. Appendix B

### Firm Representations

1. Firms are required to comply with the rules and regulations of state boards of accountancy and other regulatory bodies in the states where they practice. For example, in certain circumstances, firms may be required to obtain a firm license/permit in order to issue accounting and audit reports. As required in paragraph 2f of the Standards, the peer reviewer should obtain written representations from the firm's management as a part of a peer review.

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

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

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

December 3, 20XX (Effective date)

To the Team Captain/Reviewer

We are providing this letter in connection with the peer review of [name of firm] as of the date of this letter and for the year ended June 30, 20XX. We understand we have an obligation to update this information up to the date of the peer review report.

We understand that we are responsible for complying with the rules and regulations of state boards of accountancy and other regulators. We confirm, to the best of our knowledge and belief, that we are not aware of any situations where [name of firm] or its personnel has not complied with state board(s) of accountancy or other regulatory bodies rules and regulations, including applicable firm and individual licensing requirements in each state in which it practices for the year under review or has not notified the peer reviewer of any such situations. We have also provided a list of all client engagements to the [reviewer/administering entity] with periods ending during the year under review and have and will provide the reviewer with any other information requested during the review. For attestation engagements, including financial forecasts or projections, the list included those engagements with report dates during the year under review.

Sincerely,

[Name of reviewed firm]

## **134 109. Appendix C.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**

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

- a. The failure related to a specialized industry practice, and the firm had no experience in that industry and made no attempt to acquire training in the industry or to obtain appropriate consultation and assistance.
- b. The failure related to a matter covered by a recent professional pronouncement, and the firm had failed to identify, through professional development programs or appropriate supervision, the relevance of that pronouncement to its practice.
- c. The failure should have been detected if the firm's quality control policies and procedures had been followed.
- d. The failure should have been detected by the application of quality control policies and procedures commonly found in firms similar in size or nature of practice. That judgment can often be made by the reviewer based on personal experience or knowledge; in some cases, the reviewer will wish to consult with the state CPA society administering entity the review before reaching such a conclusion.
- e. The failure to demonstrate the competencies necessary to perform accounting and auditing engagements.

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

3. Although isolated instances of noncompliance with the firm's quality control policies and procedures ordinarily would not be included in the report or letter of comments, their nature, importance, causes (if determinable), and implications for the firm's system of quality control as a whole should be evaluated in conjunction with the review team's other findings before making a final determination. The reviewer may conclude that the isolated deficiency impacts the type of report to be issued when combined with other deficiencies or comments. However, if an engagement is deemed to be substandard (see paragraph 41), at a minimum it should be included as a comment in the letter of comments, even if the matter is isolated.

## 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 in all material respects~~, which means that the reviewer must consider carefully the need for a modified or adverse report. On the other hand, the types of deficiencies noted may be individually different, not individually significant, and not directly traceable to the design of or compliance with a particular quality control policy or procedure. This may lead the reviewer to the conclusion that the deficiencies were isolated cases of human error that should not result in a modified or adverse report.

## Design Deficiencies

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

## Forming Conclusions

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

## ~~135-110~~. Appendix D C Standard Form for Illustration of an Unmodified Report on a System Review

~~[State CPA society letterhead for a “CART Review”]; Firm letterhead for a “Firm-on-Firm Review”]; Team Captain’s Firm 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. Conformity with professional standards applicable to the firm’s accounting and auditing practice is the responsibility of the firm’s management. In addition, the firm is responsible for designing a system of quality control and complying with it to provide the firm reasonable assurance of conforming with professional standards in all material respects. Our responsibility is to express an opinion on the firm’s competencies (knowledge, skills and abilities) demonstrated to perform accounting and auditing engagements in accordance with professional standards in all material respects and on the design and compliance with the firm’s system of quality control based on our review.~~

Our review was conducted in accordance with standards established by the Peer Review Board of the American Institute of Certified Public Accountants (AICPA). During our review, we read required representations from the firm, interviewed firm personnel and obtained an understanding of the nature of the firm’s accounting and auditing practice, and the design of the firm’s system of quality control sufficient to assess the risks implicit in its practice. Based on our assessments, we selected engagements to test for conformity with professional standards and compliance with the firm’s system of quality control. The engagements selected represented a cross-section of the firm’s accounting and auditing practice with emphasis on higher-risk engagements. (The engagements selected included among others, audits of Employee Benefit Plans, engagements performed under Governmental Auditing Standards, and audits of Depository Institutions with more than \$500 million in assets.)<sup>19</sup> The review of engagements included examining engagement documentation on significant risk areas and interviews of engagement personnel.

The scope of the peer review also included examining selected administrative files to assess the firm’s compliance with Quality Control Standards issued by the AICPA. Prior to concluding the review, we reassessed the adequacy of the scope of the peer review procedures and conducted an exit conference with 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.

<sup>19</sup> If the firm performs audits of Employee Benefit Plans, engagements performed under Governmental Auditing Standards, audits of Depository Institutions with more than \$500 million in assets, or other engagements required to be selected by the Board in Interpretations, the engagements selected for review should be identified in the report.

management to discuss the results of our review. We believe that the procedures we performed provide a reasonable basis for our opinion.

~~In performing our review, we obtained an understanding of the system of quality control for the firm's accounting and auditing practice. In addition, we tested compliance with the firm's quality control policies and procedures to the extent we considered appropriate. These tests covered the application of the firm's policies and procedures on selected engagements. 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, [Name of Firm] has demonstrated the competencies necessary to perform accounting and auditing engagements in accordance with professional standards in all material respects ~~the system of quality control for the accounting and auditing practice of [Name of firm] in effect~~ for the year ended June 30, 20XX; In addition, the firm's system of quality control 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 in all material respects.

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

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

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<sup>20</sup> To be included if the review team issues a letter of comments with an unmodified or modified report.

## **136. Appendix E**

### **Illustration of a Letter of Comments on a System Review**

**[Firm letterhead for a “Firm-on-Firm Review”; Team Captain’s firm’s 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 accounting and auditing practice of [Name of firm] (the firm) for the year ended June 30, 20XX, and have issued our report thereon dated August 31, 20XX (that was modified as described therein).<sup>\*</sup> That report should be read in conjunction with the comments in this letter, which were considered in determining our opinion. The matters described below were not considered to be of sufficient significance to affect the opinion expressed in that report.

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

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

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

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

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

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<sup>\*</sup> 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.

## **137. Appendix F**

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

The purpose of a letter of response is to describe the actions the firm has taken or will take including the timing of the planned actions, to prevent a recurrence of each matter discussed in the letter of comments. If the reviewed firm disagrees with one or more of the deficiencies, comments or recommendations in the report or letter of comments, the reviewed firm should contact the administering entity for assistance in the matter. If the firm still disagrees after contacting the administering entity, the firm's response should describe the reasons for such disagreement. For more information related to disagreements, please review paragraph 97 of *Standards*. The letter of response should be carefully prepared because of the important bearing it may have on the decisions reached in connection with acceptance of the report on the review (see the section herein entitled "Acceptance of Reviews"). The letter of response should be submitted to the team captain for review and comment prior to the firm submitting the response to the administering entity. If the firm has received a modified or adverse report, the firm's responses should be separated between those matters that resulted in a modified or adverse report and those that did not.

#### **Sample Letter of Response**

September 15, 20XX

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

Ladies and Gentlemen:

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

*Financial Reporting and Disclosure Checklists*—All professional personnel were reminded of the importance of complying with the firm's policy requiring completion of its financial reporting and disclosure checklist at the training session held on September 10, 20XX. In addition, the firm's engagement review questionnaire is being revised to require the engagement partner to document his or her review of the completed checklist. (The engagement review questionnaire is a brief form completed by the engagement partner and the manager at the conclusion of an audit to document their completion of their assigned responsibilities.)

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

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

Sincerely,

[Name of firm]

**138 111. Appendix G-D****Illustrations of a Modified and Adverse Reports on a System Review**

[Firm letterhead for a “Firm-on-Firm Review”; Team Captain’s Firm letterhead for an “Association Review”]

December 3, 20XX

To the Partners [or other appropriate terminology]

PG & Associates

or

To John B. Able, CPA

We have reviewed the accounting and auditing practice of [Name of Firm] (the firm) for the year ended June 30, 20XX. Conformity with professional standards applicable to the firm’s accounting and auditing practice is the responsibility of the firm’s management. In addition, the firm is responsible for designing a system of quality control and complying with it to provide the firm reasonable assurance of conforming with professional standards in all material respects. Our responsibility is to express an opinion on the firm’s competencies (knowledge, skills and abilities) demonstrated to perform accounting and auditing engagements in accordance with professional standards in all material respects and on the design and compliance with the firm’s system of quality control based on our review.

Our review was conducted in accordance with standards established by the Peer Review Board of the American Institute of Certified Public Accountants (AICPA). During our review, we read required representations from the firm, interviewed firm personnel and obtained an understanding of the nature of the firm’s accounting and auditing practice, and the design of the firm’s system of quality control sufficient to assess the risks implicit in its practice. Based on our assessments we selected engagements to test for conformity with professional standards and compliance with the firm’s system of quality control. The engagements selected represented a cross-section of the firm’s accounting and auditing practice with emphasis on higher-risk engagements. (The engagements selected included among others, audits of Employee Benefit Plans, engagements performed under Governmental Auditing Standards, and audits of Depository Institutions with more than \$500 million in assets.)<sup>21</sup> The review of engagements included examining engagement documentation on significant risk areas and interviews of engagement personnel.

The scope of the peer review also included examining selected administrative files to assess the firm’s compliance with Quality Control Standards issued by the AICPA. Prior to concluding the review, we reassessed the adequacy of the scope of the peer review procedures and conducted an exit conference with firm management to discuss the results of our review. We believe that the procedures we performed provide a reasonable basis for our opinion.

In our opinion, except for the effects of the deficiency(ies) described below, [Name of Firm] has demonstrated competencies necessary to perform accounting and auditing engagements in accordance with professional standards in all material respects for the year ended June 30, 20XX. In addition, the firm’s system of quality control 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 in all material respects.

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<sup>21</sup> If the firm performs audits of Employee Benefit Plans, engagements performed under Governmental Auditing Standards, audits of Depository Institutions with more than \$500 million in assets, or other engagements required to be selected by the Board in Interpretations, the engagements selected for review should be identified in the report.

#### Reasons for Modified Opinion and Recommendation

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

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

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

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

Deficiency - The firm’s policies and procedures do not require certain monitoring procedures, such as post issuance reviews, or inspections and has not performed those required procedures. We noted that the library was not up-to-date and several other deficiencies noted during the peer review might have been avoided had the materials been updated, and been referred to during the conduct of the engagements.

Recommendation - The firm should revise its policies and procedures to include a post-issuance or inspection procedures, which will include all aspects of the quality control system. The firm should also revise its policies and procedures to include the summarization of the results of the post-issuance or inspection procedures.

(As is customary in a system review, we have issued a letter under this date that sets forth comments that were not considered to be of sufficient significance to affect the opinion expressed in this report<sup>22</sup>.)

John Brown, Team Captain

[or name of reviewing firm]

### **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]*.

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<sup>22</sup> To be included if the review team issues a letter of comments with an unmodified or modified report.

## **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.

## **139. Appendix H**

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

December 3, 20XX

[Should correspond with date of report]

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

or

To John B. Able, CPA

We have reviewed the accounting and auditing practice of [Name of firm] (the firm) for the year ended June 30, 20XX, and have issued our report thereon dated December 3, 20XX that was modified as described therein.\* That report should be read in conjunction with the comments in this letter, which were considered in determining our opinion. The matters described below were not considered to be of sufficient significance to affect the opinion expressed in that report.

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

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

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

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

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

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\* The phrase in parentheses "that was modified as described therein" 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.

## 140. Appendix I

### Illustration of a Response by a Reviewed Firm to a Modified Report and a Letter of Comments on a System Review

December 23, 20XX

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

Ladies and Gentlemen:

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

Deficiencies that resulted in a modified report

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

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

The firm added to its policies and procedures an annual inspection of engagements, and for large and complex engagements a preissuance review by a non-engagement partner. In addition, we have added steps to our ongoing monitoring procedures to update the library to contain current professional standards and other materials. We will also maintain appropriate documentation summarizing the results of the inspection and monitoring procedures and inform all staff of any deficiencies identified.

Comments that did not result in a modified report

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

In response to the comment regarding non-disclosure compilations reports, we will immediately revise the report language to conform to professional standards. The firm has implemented a quality control policy for a technical manager to review each accounting and auditing report to ensure the reports conform with professional standards.

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

Sincerely,

[Name of Firm]

## **141. Appendix J** **Illustration of a Modified Report for a Scope Limitation on a System Review**

### **Limitation on Scope of Review**

A modified report should be issued when the scope of the review is limited by conditions (including those discussed in the standards) that preclude the application of one or more review procedures considered necessary in the circumstances and the review team cannot accomplish the objectives of those procedures through alternate procedures. For example, a review team may be able to apply appropriate alternate procedures if one or more engagements have been excluded from the scope of the review. Ordinarily, however, the team would be unable to apply alternate procedures if a significant portion of the firm's accounting and auditing practice during the year reviewed had been divested before the review began. Another example would be if the firm does not provide the reviewer with the required representations noted in paragraph 2(f) and Appendix B. A review team captain who is considering modifying the peer review report for a scope limitation should consult with the administering entity.

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

December 3, 20XX

To the Partners [or other appropriate terminology]

PG & Associates

or

To John B. Able, CPA

We have reviewed the accounting and auditing practice of [Name of Firm] (the firm) for the year ended June 30, 20XX. Conformity with professional standards applicable to the firm's accounting and auditing practice is the responsibility of the firm's management. In addition, the firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of conforming with professional standards in all material respects. Our responsibility is to express an opinion on the firm's competencies (knowledge, skills and abilities) demonstrated to perform accounting and auditing engagements in accordance with professional standards in all material respects and on the design and compliance with the firm's system of quality control based on our review.

Our review was conducted in accordance with standards established by the Peer Review Board of the American Institute of Certified Public Accountants (AICPA). During our review, we read required representations from the firm, interviewed firm personnel, and obtained an understanding of the nature of the firm's accounting and auditing practice, and the design of the firm's system of quality control sufficient to assess the risks implicit in its practice. Based on our assessments, we selected engagements to test for conformity with professional standards and compliance with the firm's system of quality control. The engagements selected represented a cross-section of the firm's accounting and auditing practice with emphasis on higher-risk engagements. (The engagements selected included among others, audits of Employee Benefit Plans, engagements performed under Governmental Auditing Standards, and audits of Depository Institutions with more than \$500 million in assets.)<sup>23</sup> The review of engagements included examining documentation in significant risk areas

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<sup>23</sup> If the firm performs audits of Employee Benefit Plans, engagements performed under Governmental Auditing Standards, audits of Depository Institutions with more than \$500 million in assets, or other engagements required to be selected by the Board in Interpretations, the engagements selected for review should be identified in the report.

In performing our review, the firm notified us that we would be unable to select one of its completed and issued engagements. As a result, we were unable to include within the scope of this review all of the accounting and auditing engagements required by the standards established by the Peer Review Board of the AICPA.

The scope of the peer review also included examining selected administrative files to assess the firm's compliance with Quality Control Standards issued by the AICPA. Prior to concluding the review, we reassessed the adequacy of the scope of the peer review procedures and conducted an exit conference with firm management to discuss the results of our review. We believe that the procedures we performed provide a reasonable basis for our opinion.

In our opinion, except for the effects of any deficiencies or comments that might have come to our attention had we not been limited in scope as noted above, [Name of Firm] has demonstrated competencies necessary to perform accounting and auditing engagements in accordance with professional standards in all material respects for the year ended June 30, 20XX. In addition, the firm's system of quality control 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 in all material respects.

(As is customary in a system review, we have issued a letter under this date that sets forth comments that were not considered to be of sufficient significance to affect the opinion expressed in this report<sup>24</sup>.)

John Brown, Team Captain

[or name of reviewing firm]

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<sup>24</sup> To be included if the review team issues a letter of comments ~~along with the~~ unmodified or modified report.

## **142. Appendix K**

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

December 3, 20XX

*[Should correspond with date of report]*

To the Partners *[or other appropriate terminology]*

PG & Associates

*or*

To John B. Able, CPA

We have reviewed the accounting and auditing practice of *[Name of firm]* (the firm) for the year ended June 30, 20XX, and have issued our report thereon dated December 3, 20XX that was modified as described therein.\* That report should be read in conjunction with the comments in this letter, which were considered in determining our opinion. These matters described below were not considered to be of sufficient significance to affect the opinion expressed in that report.

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

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

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

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

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

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\* The phrase in parentheses "that was modified as described therein" 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.

## **143. Appendix L**

### **Illustration of a Response by a Reviewed Firm to a Modified Report for a Scope Limitation and a Letter of Comments on a System Review<sup>25</sup>**

December 23, 20XX

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

Ladies and Gentlemen:

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

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

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

Sincerely,

[Name of Firm]

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<sup>25</sup> Although not required to respond to a scope limitation as described in the report, the firm may identify the reasons for the scope limitation

## 144.112- Appendix M.E Guidelines for and Illustrations of an Adverse Report on a System Review

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

August 31, 20XX

To the Partners [or other appropriate terminology]

NH & Associates

or

To John B. Able, CPA

We have reviewed the accounting and auditing practice [Name of Firm] (the firm) for the year ended June 30, 20XX. Conformity with professional standards applicable to the firm's accounting and auditing practice is the responsibility of the firm's management. In addition, the firm is responsible for designing a system of quality control and complying with it to provide the firm reasonable assurance of conforming with professional standards in all material respects. Our responsibility is to express an opinion on the firm's competencies (knowledge, skills and abilities) demonstrated to perform accounting and auditing engagements in accordance with professional standards in all material respects and on the design and compliance with the firm's system of quality control based on our review.

Our review was conducted in accordance with standards established by the Peer Review Board of the American Institute of Certified Public Accountants (AICPA). During our review, we read required representations from the firm, interviewed firm personnel, and obtained an understanding of the nature of the firm's accounting and auditing practice, and the design of the firm's system of quality control sufficient to assess the risks implicit in its practice. Based on our assessments, we selected engagements to test for conformity with professional standards and compliance with the firm's system of quality control. The engagements selected represented a cross-section of the firm's accounting and auditing practice with emphasis on higher-risk engagements. (The engagements selected included among others audits of Employee Benefit Plans, engagements performed under Governmental Auditing Standards, and audits of Depository Institutions with more than \$500 million in assets.)<sup>26</sup> The review of engagements included examining documentation in significant risk areas

The scope of the peer review also included examining selected administrative files to assess the firm's compliance with Quality Control Standards issued by the AICPA. Prior to concluding the review, we reassessed the adequacy of the scope of the peer review procedures and conducted an exit conference with firm management to discuss the results of our review. We believe that the procedures we performed provide a reasonable basis for our opinion.

In our opinion, because of the deficiencies described below, [Name of Firm] has not demonstrated competencies necessary to perform accounting and auditing engagements in accordance with professional standards in all material respects for the year ended June 30, 20 . In addition, the firm's system of quality control 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.

### Reasons for Adverse Opinion and Recommendations

Deficiencies – Our review disclosed that the firm does not use formal audit programs as required by professional standards. As a result, we noted several instances where audit procedures were not adequately

<sup>26</sup> If the firm performs audits of Employee Benefit Plans, engagements performed under Governmental Auditing Standards, audits of Depository Institutions with more than \$500 million in assets, or other engagements required to be selected by the Board in Interpretations, the engagements selected for review should be identified in the report.

performed and documented. The audit work performed for several ERISA audits did not support the opinion issued and did not conform with professional standards. The engagements were deemed substandard. The firm has subsequently performed the omitted procedures to support the audit opinions.

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

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

Recommendation – The firm should review and implement the requirements of professional standards for obtaining representation letters, and the content of the accountant’s working papers on review engagements. Implementation might be achieved by utilization of a work program for performing review engagements.

Deficiencies – The firm’s policies and procedures require that financial statement and disclosure checklists be completed for all engagements. Our review noted that these checklists were not being used on all engagements. As a result, financial statements did not include all of the disclosures required by generally accepted accounting principles. Several review engagements in the construction industry were missing many disclosures that the financial statements were misleading. The report on the latter financial statements has been recalled and the financial statements are being revised.

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

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

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

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

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

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

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

John Brown, Team Captain

[or name of reviewing firm]

## 145. Appendix N

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

September 23, 20XX

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

Ladies and Gentlemen:

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

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

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

At the staff meeting, the staff was reminded of the importance of completing a disclosure checklist. Within the next few weeks all professional staff will be attending a CPE course in disclosures. In addition, the managing partner will be holding a training class on the proper completion of a disclosure checklist and who to ask if staff is unsure of any question.

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

Sincerely,

[Name of Firm]

## 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).<sup>a</sup> That report should be read in conjunction with the comments in this letter, which were considered in determining our opinion.

<sup>a</sup>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 reemphasize 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}~~

## ~~113. Appendix F~~

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

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

#### ~~Sample Letter of Response~~

~~September 15, 20XX~~

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

~~Ladies and Gentlemen:~~

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

#### ~~**Matters That Resulted in a Modified Report\***~~

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

#### ~~**Matters That Did Not Result in a Modified Report†**~~

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

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

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

~~*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}~~

## 146.114. Appendix O.G Considerations Governing the Type of Report Issued on an Engagement Review

### Circumstances Calling for a Modified Report

1. The objectives of an engagement review are to provide the reviewer with a reasonable basis for expressing limited assurance that the financial statements or information and the related accountant's report on accounting, ~~and review engagements~~ and attestation engagements submitted for review, conform in all material respects with the requirements of professional standards and whether the reviewed firm's documentation conforms with the requirements of SSARS and the SSAEs applicable to those engagements in all material respects. Accordingly, if the review discloses significant departures from professional standards in the engagements reviewed, those departures should be clearly described in the peer review report as exceptions to the limited assurance expressed in the report. ~~An engagement is ordinarily considered substandard when deficiencies, individually or in aggregate exist, that are material to understanding the report or financial statements or represents a critical attestation, or accounting, procedure required by professional standards. Therefore, the identification of at least one substandard engagement automatically results in a modified or adverse peer review report to be issued. A significant departure from professional standards may include, but is not limited to one of the following: 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 ~~areas on one engagement, engagements submitted for review,~~ that individually may not be considered a significant departure from professional standards but collectively (or in the aggregate) would ~~result in the engagement being considered substandard, warrant the issuance of a modified report.~~ In reaching this decision, the reviewer should ~~use professional judgement to determine whether the departures are material to understanding the report or financial statements and/or procedures required by professional standards,~~ 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 issue an adverse report when all of the engagements submitted for review had~~ consider the significant ~~ee of the~~ departures from professional

standards, as described previously. ~~The reviewer should not expand scope beyond the original selection in an effort to issue a different report.~~ 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”).~~

## 147.115. Appendix P.H Standard Form Illustration of ~~for~~ an Unmodified Report on an Engagement Review

[State CPA society letterhead for a “CART Review”; firm letterhead for a  
“Firm-on-Firm Review”; Reviewer’s firm ~~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, Government Auditing Standards, or examinations of prospective financial statements under the Statements on Standards for Attestation Engagements (SSAEs) during the year ended June 30, 20XX.

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

In connection with our engagement review, nothing came to our attention that caused us to believe that the financial statements or information and the related accountant’s-reports submitted for review by [Name of firm] for the year ended June 30, 20XX, did not conform with the requirements of professional standards in all material respects (or that the documentation on those engagements did not conform with the applicable requirements of SSARS and the SSAEs in all material respects.)<sup>27</sup> /(and there was no documentation required for the engagements submitted for review.)<sup>28</sup>

(As is customary in an engagement review, we have issued a letter under this date that sets forth comments that were not considered to be of sufficient significance to affect the limited assurance expressed in this report<sup>29</sup>)

John Brown, Reviewer†  
[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.

<sup>27</sup> Language included when firm submits engagements with documentation requirements.

<sup>28</sup> Language included when firm has no engagements with documentation requirements.

<sup>29</sup> To be included if the review team issues a letter of comments with an unmodified or modified report.

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

## **148. Appendix Q**

### **Illustration of a Letter of Comments on an Engagement Review**

*[State CPA society letterhead for a “CART Review”; firm letterhead for a “Firm-on-Firm Review”; Reviewer’s firm letterhead for an “Association Review”]*

*August 31, 20XX*

*[Should correspond with date of report]*

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

*or*

*To John B. Baker, CPA*

*We have performed a peer review of selected engagements (engagement review) of the accounting practice of [Name of firm] for the year ended June 30, 20XX, and have issued our report thereon dated August 31, 20XX (that was modified\* as described therein). That report should be read in conjunction with the comments in this letter. These matters described below were not considered to be of sufficient significance to affect the limited assurance expressed in that report.*

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

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

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

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

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

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

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

\* 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.

## **149. Appendix R**

### **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 including the timing of the planned actions to prevent the recurrence of each matter discussed in the report and letter of comments. If the reviewed firm disagrees with one or more of the comments or recommendations in the letter of comments, the reviewed firm should contact the administering entity for assistance in the matter. If the firm still disagrees after contacting the administering entity, the firm's response should describe the reasons for such disagreement. For additional guidance on disagreements, see paragraph 106 of *Standards*. The letter of response should be carefully prepared because of the important bearing it may have on the decisions reached in connection with acceptance of the report on the review (see the section herein entitled "Acceptance of Reviews"). The letter of response should be submitted to the reviewer for review and comment prior to the firm submitting the response to the administering entity. If the firm has received a modified or adverse report, the firm's response should be separated between those matters that resulted in a modified or adverse report and those that did not.

September 15, 20XX

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

Ladies and Gentlemen:

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

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

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

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

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

Sincerely,

[Name of firm]

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

**150 116. Appendix S I****Illustrations of a 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]~~

~~[Administering Entity letterhead for a “CART Review”; firm letterhead for a “Firm-on-Firm Review”; Reviewer’s firm letterhead for an “Association Review”]~~

August 31, 20XX

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

or

To John B. Able, CPA

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

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

~~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]~~

\* 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.

In connection with our engagement review, except for the effect of the deficiency(ies) described below with the exception of the matter(s) described in the preceding paragraph, nothing came to our attention that caused us to believe that the financial statements or information and the related accountant's reports submitted for review by *[Name of firm]* for the year ended June 30, 20XX, did not conform with the requirements of professional standards in all material respects (or that the documentation on those engagements did not conform with the applicable requirements of SSARS and the SSAEs in all material respects.)/(and there was no documentation required for the engagements submitted for review.)<sup>30</sup>

#### Reasons for Modified Report and Recommendation

Deficiency— 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 the accompanying accountants' reports were not appropriately modified. These included failure to do the following:

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

In one instance, the firm has discussed the departures with its manufacturing client and decided to recall its report and restate the accompanying financial statements in order to comply with professional standards in all material respects.

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

Deficiency – During our review we noted that the firm failed to obtain a management representation letter and its working papers failed to document the matters covered in the accountant's inquiry and analytical procedures on a review engagement. The construction engagement referred to in this deficiency was deemed substandard. This deficiency was identified on the firm's previous review.

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

Deficiency —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.

(As is customary in an engagement review, we have issued a letter under this date that sets forth comments that were not considered to be of sufficient significance to affect the limited assurance expressed in this report<sup>31</sup>.)

John Brown, Reviewer†

[or Name of reviewing firm]

<sup>30</sup> Language included when firm has no engagements with documentation requirements.

<sup>31</sup> To be included if the review team issues a letter of comments with an unmodified or modified report.

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

## 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 SSAEs in all material respects.~~

## 151. Appendix T Illustration of a Letter of Comments to a Modified Report on an Engagement Review

August 31, 20XX

[Should correspond with date of report]

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

or

To John B. Baker, CPA

We have performed a peer review of selected engagements (engagement review) of the accounting practice of [Name of firm] for the year ended June 30, 20XX, and have issued our report thereon dated August 31, 20XX (that was modified\* as described therein)\*. That report should be read in conjunction with the comments in this letter. These matters described below were not considered to be of sufficient significance to affect the limited assurance expressed in that report.

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

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

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

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

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

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

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

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

## **152. Appendix U**

### **Illustration of a Response by a Reviewed Firm to a Modified Report and Letter of Comments on an Engagement Review**

September 15, 20XX

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

Ladies and Gentlemen:

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

Matters that resulted in a modified report

As recommended by the reviewer, the entire staff has participated in continuing professional education related to reporting and disclosures. We will be performing a preissuance review by a partner not associated with the engagement to make sure that the accountants' report is appropriately modified when the financial statements depart from professional standards.

Management representation letters will be obtained for all future review engagements issued by the firm. The firm has required that a manager review each engagement to ensure that the management representation letter is obtained and that all the required documentation is included in the working papers.

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

Matters that did not result in a modified report

We will put into practice a reporting and disclosure checklist for all engagements to be completed by staff. The checklist will be reviewed by the partner in charge of the engagement. The reporting and disclosure checklist will cover presentation of statement of activities issued by this firm and will be updated as new pronouncements are issued to ensure all disclosures are included in the financial statements.

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

We believe these actions address the deficiencies and comments noted by the reviewer.

Sincerely,

[Name of firm]

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

## **153. Appendix V**

### **Illustration of an Adverse Report on an Engagement Review**

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

August 31, 20XX

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

*or*

To John B. Able, CPA

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

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

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

#### Reasons for Adverse Report and Recommendations

Deficiencies - Our review disclosed several failures to adhere to professional standards in reporting on material departures from GAAP and in conforming with standards for accounting and review services. Specifically, the firm did not disclose in certain compilation and review reports failures to conform with GAAP in accounting for leases, in accounting for revenue from construction contracts, and in disclosures made in the financial statements or the notes thereto concerning various matters important to an understanding of those statements. In addition, the firm did not obtain management representation letters on review engagements. The engagements in the construction and manufacturing industries were deemed substandard.

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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.

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

Deficiency—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 engagements in the professional services industry were deemed substandard. This deficiency was noted in the firm’s previous reviews.

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

Deficiency—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 were 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.

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

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

John Brown, Reviewer†

[or Name of reviewing firm]

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

## **154. Appendix W** **Illustration of a Response by a Reviewed Firm to an** **Adverse Report on an Engagement Review**

September 15, 20XX

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

Ladies and Gentlemen:

This letter represents my response to the report on the engagement review of my firm's accounting and auditing practice.

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

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

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

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

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

Sincerely,

[Name of firm]

## 117. Appendix J

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

#### ~~Guidelines~~

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

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

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

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

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

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

#### ~~Illustration of a Letter of Comments~~

~~{State CPA society letterhead for a "CART Review"; firm letterhead for a "Firm-on-Firm Review"; association letterhead for an "Association Review"}~~

~~August 31, 20XX~~

~~{Should correspond with date of report}~~

~~To the Partners {or other appropriate terminology}~~

~~Able, Baker & Co.~~

~~or~~

~~To John B. Baker, CPA~~

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

~~*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.~~

~~*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}~~

## ~~118. Appendix K~~

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

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

#### ~~Sample Letter of Response~~

~~September 15, 20XX~~

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

~~Ladies and Gentlemen:~~

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

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

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

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

~~Sincerely,~~

~~*[Name of firm]*~~

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

**155 419. Appendix X-1****Illustration of a Report on a Report Review**

[*State CPA society letterhead for a "CART Review"; firm letterhead for a "Firm-on-Firm Review"; Reviewer's firm letterhead; 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 **required** representations provided by the firm **and other representations on the engagements submitted for review**. The objective of a report review is to enable the reviewed firm to **improve/enhance** the overall quality of its compilation engagements that omit substantially all disclosures. To accomplish this objective, the reviewer provides comments and recommendations based on whether the submitted financial statements and related accountant's reports appear to conform with the requirements of professional standards in all material respects. A report review does not provide the reviewer with a basis for expressing any assurance as to the firm's system of quality control for its accounting practice, and we express no opinion or any form of assurance on that system.

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

or

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

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

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

~~2.~~ *Significant 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.~~ *Significant 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.

~~*Significant 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 accountants' report.~~

~~*Recommendation* - We recommend that the firm review the financial statements that it compiles and identify those prepared using a comprehensive basis of accounting other than generally accepted accounting principles. A memorandum should then be prepared highlighting the changes to be made in the current year and placed in the files of the client for whom the accountant's report, footnote or note on the face of the financial statements must be revised or created. The memorandum should indicate that a report should describe the basis of accounting and state that it is a comprehensive basis of accounting other than generally accepted accounting principles, unless the firm's client prefers to add a separate footnote to the financial statements or include a note on the face of the financial statements that describes the basis of accounting.~~

~~*Significant Comment* - On one of the engagements that we reviewed, we noted that the firm's compilation report did not 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.~~

~~*Significant Comment* - The reports on compiled financial statements for the engagements selected for review did not indicate that the financial statements omitted substantially all disclosures required by <generally accepted accounting standards> <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 accountants' report includes a reference to the~~

omission of substantially all disclosures.

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

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

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

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. The basis of accounting was readily determinable.

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

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

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

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

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

{Smith & Jones, CPAs}  
{Signature}  
John Brown, Reviewer+  
{or Name of Firm}

Authorized acknowledgement for the reviewed firm:

I acknowledge receipt of the report (and that there are no disagreements on the significant comments above matters ~~and that the firm agrees to correct all comments matters included as comments~~ by implementing the above recommendation(s))\*.

Signature: \_\_\_\_\_ Title: \_\_\_\_\_ Date: \_\_\_\_\_

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

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

**AICPA Peer Review Board**  
**(2002-2003)(1998-1999)**

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 AICPA Peer Review Program

D. DEAN BEDDOW  
Senior Technical Manager  
AICPA Peer Review Program

*\*Consultant*

## Peer Review Standards Interpretations (Issued Through October 1~~45~~, 200~~32~~)

Interpretations of the Standards for Performing and Reporting on Peer Reviews (*Standards*) are developed in open meetings by the AICPA Peer Review Board for peer reviews of firms enrolled in the AICPA peer review program. Interpretations of the Standards need not be exposed for comment and are not the subject of public hearings. These Interpretations are applicable to firms enrolled in the peer review program, individuals and firms who perform and report on peer reviews, entities that state CPA societies 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 peer review program staff.

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

1. Question: Paragraph ~~45~~ of the Standards for Performing and Reporting on Peer Reviews 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?”

2. Interpretation: A review conducted at the reviewer’s office or another agreed-upon location can achieve the objectives of a system review provided that (1) the reviewed firm is a sole practitioner, (with no professional staff,) who performs a total of three or less engagements that covered the SASs, Government Auditing Standards or examinations of prospective financial statements under the SSAEs, 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 or a report review with significant comments; and (4) in addition to materials outlined in the “Instructions to Firms Having a -System Review” (see AICPA *Peer Review Program Manual*, ~~PRP section 4100~~), the firm sends the following materials to the reviewer prior to the review:

- a. All documentation related to the resolution of independence questions (1) identified during the year under review with respect to any audit or accounting client or (2) related to any of the audit or accounting clients selected for review, no matter when the question was identified if the matter still exists during the review period
- b. The most recent independence confirmations received from other firms of CPAs engaged to perform segments of engagements on which the firm acted as principal auditor or accountant
- c. The most recent representations received from all professional staff concerning their conformity with applicable independence requirements
- d. A written representation as described in paragraph 2(f) of Standards
- d.e. Documentation, if any, of consultations with outside parties during the year under review in connection with audit or accounting services provided to any client

- 
- ~~e.f.~~ A list of relevant technical publications used as research materials, as referred to in the quality control policies and procedures questionnaire (see AICPA *Peer Review Program Manual*).
- ~~f.g.~~ A list of audit and accounting materials, if any, identified in response to the questions in the “Engagement Performance” section of the quality control policies and procedures questionnaire (see AICPA *Peer Review Program Manual*).
- ~~g.h.~~ Continuing professional education (CPE) records sufficient to demonstrate compliance ~~by the CPAs in the firm~~ with state and AICPA CPE requirements and regulatory requirements.
- ~~h.i.~~ The relevant accounting and auditing documentation ~~working paper files~~ and reports on the engagements selected for review
- j.* Documentation of the firm’s monitoring results for each year since the last peer review or enrollment in the program
- ~~i.k.~~ Any other evidential matter requested by the reviewer
3. 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 ~~completed~~concluded.
4. The firm and the reviewer should mutually agree on the appropriateness and efficiency of this approach to the peer review, especially as it relates to the firm’s first system review.

## Interpretation No. 2—Engagement Selection in System Reviews

5. Question: Paragraph [6248](#) of the Standards for Performing and Reporting on Peer Reviews (AICPA *Peer Review Program Manual*, PRP section 3100.[62 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 type 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?

6. 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 ~~audits~~ in accordance with those standards to have a peer review that includes the review of at least one ~~audit engagement~~ conducted in accordance with those standards. If a firm performs an ~~audit 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 with more than \$500 million in total assets 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.

7. 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 audit one or more SEC clients as defined by Council in an Implementing Resolution under Bylaw Section 2.3.5 are required to enroll in the SEC Practice Section (SECPS) unless they have resigned, declined to stand for reelection, or been dismissed as auditor of all such clients. Only then can they enroll in the AICPA peer review program. Therefore, because there is a significant public interest in, and a higher risk associated with, audits of SEC registrants, such engagements should be assessed at a higher level of peer review risk. If a firm performs the audit of one or more SEC registrants during the year under review and at least one such audit engagement is not selected for review, the review team should document its justification ~~for why not 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 been dismissed as auditor of the SEC clients that were clients at any time since the

date of the firm's last peer review or during the year under review if the reviewed firm has not previously had a review.

## Interpretation No. 3—Team Captain and Reviewer Training Courses

8. Question: Paragraph ~~31(e)23~~ of the Standards for Performing and Reporting on Peer Reviews (AICPA *Peer Review Program Manual*, PRP section 3100.~~31(e)23~~) states that a ~~reviewer 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 ~~reviewer, a team captain~~. Paragraph 24 of the Standards for Performing and Reporting on Peer Reviews (AICPA *Peer Review Program Manual*, 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 ~~reviewer system review team captain, engagement and report reviewer~~ complete and what course, if any, is a reviewer on a system review, who is not the team captain, required to complete?

9. Interpretation: ~~For reviews commencing on or before December 31, 2003, a team captain on a system review and a reviewer on an engagement or report review should have completed an AICPA Peer Review Board approved training course during the five year period prior to the commencement of the review. Effective f~~For reviews commencing on or after January 1, 2004, a team captain on a system review and a reviewer on an engagement or report review should have completed an AICPA Peer Review Board-approved training course during the three-year period prior to commencement of the review. The AICPA-approved training courses are discussed below. Effective for reviews commencing on or after January 1, 2005, reviewers on system reviews that are not team captains must have also completed the same AICPA Peer Review Board-approved training course for team captains during the three-year period prior to commencement of the review, when the function of those reviewers goes beyond only reviewing engagements. The AICPA Peer Review Board may from time to time approve other reviewer training courses.

10. 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”). Thereafter, for reviews commencing on or before December 31, 2003, (during the five-year period prior to the commencement of a review), and for reviews commencing on or after January 1, 2004 (during the three-year period prior to the commencement of a review), a system review team captain should complete 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 one-and-a-half-day “Peer Review Program Conference”; AICPA Peer Review Board - RAB Training Course; or other courses approved by the AICPA Peer Review Board.”

11. 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. Thereafter, for reviews commencing on or before December 31, 2003, (during the five-year period prior to the commencement of a review), and for reviews commencing on or after January 1, 2004 (during the three-year period prior to the commencement of a review), all of the courses mentioned in paragraph 10 of this ese Interpretations 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 31(b) of~~ the AICPA Standards for Performing and Reporting on Peer Reviews (See AICPA *Peer Review Program Manual*, PRP section 3100.3148(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. As of January 1, 2001, 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 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 ~~and 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 3100.0403).

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 A at programs developed by Firm B would not preclude Firm B from reviewing Firm A.

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

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

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

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

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

.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 and subsequently be engaged to perform a peer review of Firm B?

.34 Interpretation: Yes.

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

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

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

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

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

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

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

.42 Interpretation: Representations made in advertisements by a group of CPA firms would be considered "objective and quantifiable" provided that the group of CPA firms maintain documentation to support the representations, and such documentation is available for peer review. For example, if a group of CPA firms advertises that its members provide professional accounting and auditing services to a designated number of industry clients in a certain geographic area, some form of client listing should be maintained in support of the representation. If a group of CPA firms advertises that each of its member firms have passed peer review, letters from the entities accepting

the peer review documents of those firms should be maintained. Representations should not be made by a group of CPA firms in their advertisements that designate themselves as "the best," "the finest," "uniquely qualified," "prestigious," "elite," etc. These superlative descriptions are generic words and terms that are too subjective. Also, such representations in advertisements by a group of CPA firms cannot be readily supportable by any form of documentation that can be peer reviewed.

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

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

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

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

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

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

.48 Interpretation: Yes.

.49 Question: Firm A and Firm B have shared office facilities for the last several years. Due to the growth of both firms, Firm B moves into new offices on January 1, ~~1999~~2001. In March 2003, Firm A engages Firm B to perform the peer review of Firm A. Firm A's peer review year-end is December 31, ~~2002~~2000. 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* 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 [11998](#) of the *Standards*, 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, ~~the~~ firms (or individuals) that only perform these types of compilations ~~as its highest level of service~~, where no report is issued, and no other

engagements within the scope of peer review as discussed in paragraph 3 of the Standards, would not be required to enroll in an Institute–approved practice-monitoring program. Would the compilations for management’s use only be subject to peer review when the firm is already enrolled in the peer review program because, for example, it performs services and issues reports on other engagements that are within the scope of the AICPA’s practice-monitoring standards?

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

.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 the Statement on Standards for Accounting and Review Services 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 the Statement on Standards for Accounting and Review Services No. 8 should be treated as though they were “reports” (as reports are discussed and referred to in the *Standards*). This documentation would not be considered “reports” for bylaw purposes.

.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~~5~~ Question: Specifically, what should the peer reviewer be reviewing on such an engagement on a system, engagement or report review?

.68~~6~~ Interpretation: The Statement on Standards for Accounting and Review Services (SSARS) No. 8 requires the accountant to document the understanding of the engagement with the entity through the use of an engagement letter. The reviewer is to review the engagement letter to determine that the documentation of the understanding includes the requirements detailed in SSARS No. 8. The reviewer should also review the financial statements to determine that the required restriction of their use is on each page. Except for the restriction of use, the reviewer should not be reviewing the financial statements, disclosures or supplementary information for accuracy, appropriateness, or conformity with professional standards.

.69~~7~~ Question: Must a peer reviewer select such an engagement on a system, engagement or report review?

~~.70~~~~68~~ Interpretation: No. This engagement is not a new level of service. It is still a compilation that either contains all disclosures required by generally accepted accounting principles or an other comprehensive basis or the disclosures are omitted. The *Standards for Performing and*

*Reporting on Peer Reviews* already discuss the engagement selection process for such engagements in engagement and report reviews. In addition, a system review requires the peer reviewer to use a risk-based approach when selecting engagements. The Statement on Standards for Accounting and Review Services No. 8 does not change the existing engagement selection process.

~~.71~~ ~~69~~ 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~~ ~~70~~ Interpretation: No

## Interpretation No. 8 – Defining the Acceptance and Completion Dates on a Peer Review

~~.73~~ ~~74~~ **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~~ ~~72~~ **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 **additional 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~~ ~~73~~ 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~~ ~~74~~ In either of the situations described in paragraphs ~~.74 or .75 above~~ ~~.72 or .73~~, 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 Matters/Comments on a Report Review**

.77 Question: Paragraphs 78, 107 and 115 of the Standards and the acknowledgement sentence in the report issued on a report review (Appendix X) refers to “significant matters” and “significant comments” What are some types of matters and comments that should be deemed as significant for purposes of a report review?

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

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

1. 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.
2. Failure to include a statement of cash flows in a GAAP prepared statement without modifying the accountant’s report.
3. Omission of an actual financial statement(s) that is (are) referred to in the report.
4. Financial statements departed from professional standards, for example, in the area of revenue recognition and the report was not appropriately modified.
5. Financial statements include a material balance that was not appropriate for the basis of accounting used.
6. Failure to include in the accountant’s report any of the following:
  - a. A compilation has been performed in accordance with SSARS issued by the AICPA.
  - b. A compilation is limited to presenting in the form of financial statement information that is the representation of management (owners).
  - c. 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.
  - d. The paragraph representing that management has elected to omit substantially all of the required disclosures required by GAAP or OCBOA.
  - e. Any of the periods covered by the financial statements, and it cannot be determined from reading the financial statements.

f. Lack of independence when appropriate to do so.

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

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

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

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

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

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

2. 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.

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

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

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

6. Failure to comply with certain regulatory requirements as indicated in the firm’s written representations to the reviewer.

7. Other minor report-dating departures.

8. 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 entity or the firm that formed the review team until 90 days after the peer review is completed (See Interpretation No. 8). 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 The following materials should be retained 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

.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. Firm annual representations regarding their accounting and auditing practice
- d. Review team appointment acceptance letters
- e. 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 the 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 of 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 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 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.