



**Peer Review Standards Update No. 3,
*Modernizing Peer Review Administration
Requirements***

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

**As Approved by the Peer Review Board
on February 11, 2026**

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Executive Summary

Introduction

This memorandum provides a summary of Peer Review Standards Update (PRSU) No. 3, *Modernizing Peer Review Administration Requirements*, which amends the AICPA Standards for Performing and Reporting on Peer Reviews (standards) issued by the AICPA Peer Review Board (board).

Overview

The AICPA Peer Review Program (program) monitors the quality of reviewed firms' accounting and auditing engagements through an evaluation of select engagements (when eligible for an engagement review) or by evaluation of firms' systems of quality management under which those engagements are performed (when system reviews are required or elected). Participation in the program is mandatory for AICPA membership, as explained in paragraph .03 of PR-C section 100, *Concepts Common to All Peer Reviews*,¹ and peer reviews are now required for licensure in nearly all state licensing jurisdictions.

As part of its efforts to maintain standards that are easy to read, understand, and apply, the board periodically (at least annually) conducts an environmental scan, which includes economic and regulatory considerations, to determine if revisions are necessary for the standards to remain relevant and appropriate to meet the current needs of the program and applicable stakeholders. As a result, the board has revised certain requirements relating to the administration of peer reviews to account for risks to public interest associated with regulatory considerations and the evolving landscape of firm practice structures.

Regulatory Considerations

As the PCAOB maintains an increased focus on registered firms' systems of quality control according to QC section 1000, *A Firm's System of Quality Control*,² and given the increasing complexity of identified deficiencies and related disciplinary orders from the SEC and PCAOB, the board believes it is critical for peer review teams to have relevant experience to consider the implications of such matters in peer reviews. With an increasing number of firms electing the National Peer Review Committee (National PRC) as their administering entity (AE), the board recognized an increased potential for review teams that could have been approved under previous guidance while lacking familiarity with the current regulatory environment. Therefore, this PRSU revises the required qualifications in paragraph .08 of PR-C section 200 for team captains to perform a review for a firm that performed or "played a substantial role in" (as defined by the PCAOB) an engagement under PCAOB standards with a period end during the peer review year.

Considering the requirement in paragraph .35a of PR-C section 100 that states firms are required to have their reviews administered by the National PRC if the firm performed or "played a substantial role in" (as defined by the PCAOB) an engagement under PCAOB standards with a period ending during the peer review year, and the requirement in paragraph .08 of PR-C section 200, *General Principles and Responsibilities for Reviewers*, that previously stated only that the team captain's firm's most recent peer review should have been administered by the National

¹ All PR-C sections can be found in AICPA *Professional Standards*.

² QC section 1000, *A Firm's System of Quality Control*, can be found in *PCAOB Standards and Related Rules*.

PRC (whether elected or required to do so), this PRSU revises the requirement to address the risk that the review team may not be familiar with PCAOB inspections and the potential impact on the peer review if the reviewing firm elected, but was not required, to have its review administered by the National PRC.

The board believes that firms should still be permitted to elect the National PRC as their AE; however, to address the preceding concerns related to the PCAOB environment and to account for the revisions to paragraph .35 of section 100 discussed in the “Alternative Practice Structures” section below, the revised requirement in paragraph .08 of section 200 will ensure that review teams have relevant and appropriate experience to evaluate PCAOB-related matters. Furthermore, paragraph .A13 of section 200 is introduced to allow for exceptions to this revised requirement when the review team submits a request to the National PRC with appropriate substantiation of qualifications that would enable the review team to effectively consider the implications of PCAOB inspections on the reviewed firm’s peer review.

Alternative Practice Structures

Private equity (PE) investors have firmly established themselves as pivotal players across a wide range of industries for more than 75 years. PE’s interest in the accounting profession began in the early 2000s but really took hold in the 2020s, notably with Towerbrook Capital Partners’ investment in Eisner Advisory Group in 2021. Alternative practice structures (APSs) were an accessible model for PE investors to enter the accounting profession because, although a CPA firm is prohibited from having a passive commercial investment, a closely aligned nonattest service entity (NSE) is not. Therefore, PE could invest in the profession, and a CPA firm could comply with the profession’s ethical requirements and state regulations.

PE investors provide capital, expertise, and resources to fuel growth and help accounting firms remain competitive in a rapidly changing market. The infusion of capital allows firms to focus on innovation, technology, talent retention, and improving professional services, all of which are essential to their long-term success. Notwithstanding the benefits that PE investors may offer firms, ensuring that the integrity of the attest function is not compromised under this type of APS is critical to protecting the public interest. PE’s involvement in the accounting profession has raised questions from various regulators, standard setters, CPA practitioners, and other stakeholders about potential conflicts. Thus, the board has considered the following specific concerns and potential risks related to a PE investment in a CPA firm:

- A conflict may exist between the CPAs’ motive (public trust) and the PE investor’s motive (profit), and the PE investor may place undue pressure on the attest firm’s partners or nonattest service entity’s (NSE’s) principals.
- Quality of services, both attest and nonattest, may be diminished through reductions in staff and other cost-saving measures.
- Monitoring compliance with independence and other professional standards may be less effective due to the increased complexity of the business model.
- Peer review effectiveness and enforceability of regulations and standards may be more difficult as the NSE is not part of the CPA firm.
- There may be undue influence and self-interest threats to the attest firm partners’ independence and objectivity because they are compensated by two entities, one of which has representation by the outside investor.
- The terms of the services agreement between the CPA firm and the NSE may not have been drafted (or properly implemented) to avoid placing undue pressure on the CPA firm in ways that can impair independence, objectivity, or quality.

From time to time, the board has considered situations that may suggest reviews of a firm possessing certain engagements or characteristics should be subject to additional safeguards including, but not limited to, required consultations, oversight, specific review team experience, or having its review temporarily administered by the National PRC due to the complexity of issues that may warrant greater consistency by centralizing the administration of such firms' peer reviews.

Accordingly, this PRSU expands the requirement in paragraph .35 and introduces application and other explanatory material in paragraph .A50 of section 100 to allow the board to use discretion in determining appropriate safeguards designed to address the risks associated with emerging areas, certain practice structures, engagements, or other services that the board believes to present an elevated risk to quality and to the profession. In doing so, the board will at least annually conduct environmental scans and ongoing monitoring of rapidly evolving areas to assist with developing training or resources for stakeholders and to assess whether to maintain or discontinue any implemented safeguards.

Considering the risks associated with system reviews of firms with an APS, the board believes the following are the most appropriate safeguards under the circumstances so that the board can closely monitor these reviews to develop specific training or resources before returning the administration of such reviews to other AEs:

- Firms with an APS are required to have their reviews temporarily administered by the National PRC, and
- While the captain does not have to be employed by or be an owner of a firm whose most recent review was administered by the National PRC, the peer reviewer is required to have a thorough understanding (represented on the reviewer's resume) of independence requirements applicable to APS and network firms. are the most appropriate safeguards under the circumstances.

Summary of Proposed Changes

As previously described, this PRSU revises or expands the following requirements and application and other explanatory material:

- Paragraph .35 of section 100 expands the criteria used to determine whether the National PRC should administer a firm's peer review.
 - Accordingly, paragraph .A50 is introduced to indicate that the board will (at least annually) assess in meetings open to the public whether certain identified risks warrant additional safeguards or policies and procedures to mitigate such risks. In doing so, possible safeguards or policies and procedures that may be implemented by the board include, but are not limited to, the following:
 - Require AEs to routinely consult with the AICPA when administering certain peer reviews
 - Require AEs to perform full oversights of certain peer reviews
 - Require peer review teams to represent that it has the necessary knowledge and experience to perform certain peer reviews
 - Require certain peer reviews to be temporarily administered by the National PRC
 - Additionally, paragraph .A50 states that if National PRC administration is required, the captain does not have to be employed by or be an owner of a firm whose most

recent review was administered by the National PRC, given that National PRC administration is intended to be temporary in these situations

- However, a member of the review team is required to have a thorough understanding (represented on the reviewer's resume) of the independence requirements regarding alternative practice structures and network firms.
- Paragraph .A51 was added to specifically indicate that
 - A firm closely aligned with a non-CPA-owned entity (an alternative practice structure) is required to have its review administered by the National PRC, and
- Paragraph .08 of section 200 has been revised to require when a firm's peer review is administered by the National PRC because its practice includes PCAOB engagements, the team captain's firm's most recent peer review should also have been required to be administered by the National PRC for the same reason.
 - Accordingly, paragraph .A13 is introduced to describe when an exception to this requirement may be granted if the team captain submits a request in writing to the National PRC describing qualifications and experience that would enable the review team to effectively review the firm's engagements and the system of quality management.
- Paragraph .30 of section 220, and paragraph .16 and paragraph .A19 of section 320 are revised to correct clerical errors by removing the words "audit" or "auditing" in reference to the reviewed firm's practice because the audit level of service is not included in the scope of engagement reviews.

Effective Date

The revisions associated with the administration of peer reviews described in this PRSU are effective for system reviews scheduled on or after February 28, 2026. Clerical revisions pertaining to engagement reviews in section 220 and section 320 are effective upon publishing.

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Proposed Peer Review Standards Update No. 3, *Modernizing Peer Review Administration Requirements*

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

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

[Paragraphs .01–.34 are unchanged.]

.35 Firms are required to have their reviews administered by the National PRC if they meet any of the following criteria: (Ref: par. .A49)

- a. The firm performed or “played a substantial role in” (as defined by the PCAOB) an engagement under PCAOB standards with a period end during the peer review year.
- b. The firm is a provider of quality management materials (QMM) (or is affiliated with a provider of QMM) that are used by firms that it peer reviews.
- c. ***The firm’s practice structure is deemed by the board to present an elevated risk to quality and to the profession, or the firm’s practice includes certain engagements or services deemed to present such risk. (Ref: par. .A50)***

[Paragraphs .36–.53 are unchanged.]

Application and Other Explanatory Material

[Paragraphs .A1–.A49 are unchanged.]

.A50 *The board will conduct (at least) annual environmental scans, in meetings open to the public, to:*

- *identify areas (in other words, practice structure characteristics or certain engagements or services performed) that present such risk*
- *determine if already identified areas no longer present such risk.*

Before requiring National PRC administration, the board will discuss and consider whether it is appropriate to implement other safeguards or policies and procedures including, but not limited to, the following:

- a. *Requiring AEs to routinely consult with the AICPA when administering certain peer reviews*
- b. *Requiring AEs to perform full oversights of certain peer reviews*

- c. *Requiring peer review teams to represent that it has the necessary knowledge and experience to perform certain peer reviews*

The board may also determine, as part of an environmental scan, that an area presents such a risk that other safeguards would not be sufficient and that National PRC administration is necessary.

When National PRC administration is determined to be necessary, the Board's intent is to use such administration as a mechanism for knowledge transfer and capability building across administering entities. Accordingly, during the period of National PRC administration staff from other administering entities may be invited to participate in capability building activities such as, but not limited to, attendance at report acceptance body meetings, training, shadowing, or co-review mechanisms, as appropriate for the risk(s) identified.

National PRC administration, for any identified risk, is designed to be a temporary measure. Given the temporary nature of these situations, the captain of an affected peer review does not have to be employed by or be an owner of a firm whose most recent review was administered by the National PRC. However, the board may require a team member to represent they have the necessary knowledge and experience as noted previously.

.A51 Identified risks are currently as follows:

- *Effective for system reviews scheduled on or after February 28, 2026¹, the board requires a firm to have its review administered by the National PRC when the firm is closely aligned with a non-CPA-owned entity (an alternative practice structure). For these peer reviews, the board requires a member of the review team to have a thorough understanding (represented on the reviewer's resume) of the independence requirements regarding alternative practice structures and network firms.*

[Paragraphs .A50–.A58 are renumbered to .A52–.A60. The content is unchanged.]

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

[Paragraphs .01–.04 are unchanged.]

Requirements

Reviewer Qualifications

[Paragraphs .01–.07 are unchanged.]

¹ As approved through issuance of Peer Review Standards Update (PRSU) No. 3, *Modernizing Peer Review Administration Requirements*.

.08 In order to be qualified as captain for a peer review of a firm whose review is required to be administered by the National Peer Review Committee (PRC) *because the firm performed or “played a substantial role in” (as defined by the PCAOB) an engagement under PCAOB standards with a period end during the peer review year as described in paragraph .35a of section 100*, a captain should currently be employed by or be an owner of a firm whose most recent review was *also required to be* administered by the National PRC *for the same reason*. (Ref: par. ~~.A12–.A14~~)

[Paragraphs .09–.38 are unchanged.]

Application and Other Explanatory Material

Reviewer Qualifications (Ref: par. .05–.08)

[Paragraphs .A1–.A11 are unchanged.]

.A12 If a firm elects, but is not required, to have its peer review administered by the National PRC, the captain does not have to be employed by or be an owner of a firm whose most recent review was administered by the National PRC.

.A13 If a firm is required to have its peer review administered by the National PRC according to paragraph .35a of section 100 and the team captain’s firm’s most recent peer review was not required to be administered by the National PRC for the same reason, an exception to the requirement in paragraph .08 may be granted when the team captain submits a request in writing to the National PRC that describes the experience and qualifications that enable the review team to effectively review the firm’s engagements and its system of quality management.

~~.A14~~ For other requirements for a captain in a system review, see section 210, *General Principles and Responsibilities for Reviewers — System Reviews*, and for other requirements of a captain in an engagement review, see section 220, *General Principles and Responsibilities for Reviewers — Engagement Reviews*.

[Paragraphs ~~.A14–.A46~~ are renumbered to .A15–.A47. The content is unchanged.]

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

[Paragraphs .01–.29 are unchanged.]

.30 The review captain should request management of the firm to provide written representations for the peer review year that are dated as of the date of the peer review report stating the following: (Ref: par. .A20)

- a. Management has fulfilled its responsibility for the design, implementation, and operating effectiveness of a system of quality management for our accounting practice that provides us with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.
- b. Management acknowledges its responsibility for complying with the rules and regulations of state boards of accountancy and other regulations.
- c. Management has disclosed to the review captain all known instances of noncompliance or suspected noncompliance with the rules and regulations of state boards of accountancy or other regulatory bodies, including applicable firm and individual licensing requirements in each state in which it practices for the year under review.
- d. Management has discussed significant issues from reports and communications from regulatory, monitoring, and enforcement bodies with the team captain, if applicable.
- e. Management has fulfilled its responsibility to remediate nonconforming engagements, as stated by the firm in the letter of response, if applicable.
- f. Management understands the intended uses and limitations of the quality management materials it has developed or adopted. Management has tailored and augmented the materials as appropriate such that the quality management materials encompass guidance that is sufficient to assist it in conforming with professional standards (including the Statements on Quality Management Standards) applicable to its accounting ~~and auditing~~ practice.
- g. Management has responded fully and truthfully to the review captain's inquiries.
- h. Management has provided the review captain with all relevant information including all engagements with periods ending during (or, for financial forecasts or projections and agreed-upon procedures engagements, report dates in) the year under review.
- i. Management has disclosed to the review captain that the firm did not perform any engagements under the Statements on Auditing Standards (SASs) or *Government Auditing Standards*, examinations under the Statements on Standards for Attestation Engagements (SSAEs), or engagements under the Public Company Accounting Oversight Board (PCAOB) standards that are not subject to PCAOB permanent inspection.
- j. Management acknowledges that failure to properly include the engagements listed in (i) could be deemed a failure to cooperate and may result in termination from the Peer Review Program and, if termination occurs, may result in an investigation of a possible violation by the appropriate regulatory, monitoring, or enforcement body.

- k. Management has provided the review captain communications or summaries of communications from regulatory, monitoring, or enforcement bodies relating to allegations or investigations of deficiencies in the conduct of an accounting or attestation engagement performed and reported on by the firm, whether the matter relates to the firm or its personnel, within three years preceding the current peer review year-end.
- l. Management has disclosed that there are no known limitations or restrictions on the firm's or its personnel's ability to practice public accounting by regulatory, monitoring, or enforcement bodies within three years preceding the current peer review year-end, or management should include a summary of the limitations or restrictions on the firm's or its personnel's ability to practice public accounting by regulatory, monitoring, or enforcement bodies within three years preceding the current peer review year-end.

[Paragraphs .31–.A33 are unchanged.]

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

[Paragraphs .01–.15 are unchanged.]

Written Representations

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

- a. Management has fulfilled its responsibility for the design, implementation, and operating effectiveness of a system of quality management for our accounting practice that provides us with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. (Ref: par. .A19)
- b. Management acknowledges its responsibility for complying with the rules and regulations of state boards of accountancy and other regulations.
- c. Management has disclosed to the review captain all known instances of noncompliance or suspected noncompliance with the rules and regulations of state boards of accountancy or other regulatory bodies, including applicable firm and individual licensing requirements through the issuance dates of the reviewed engagements in each state in which the firm practices for the year under review.
- d. Management has discussed significant issues from reports and communications from regulatory, monitoring, and enforcement bodies with the team captain, if applicable.

- e. Management has fulfilled its responsibility to remediate nonconforming engagements as stated by the firm on the relevant form, if applicable.
- f. Management understands the intended uses and limitations of the quality management materials it has developed or adopted. Management has tailored and augmented the materials as appropriate such that the quality management materials encompass guidance that is sufficient to assist it in conforming with professional standards (including the Statements on Quality Management Standards) applicable to its accounting and auditing practice.
- g. Management has responded fully and truthfully to the review captain's inquiries.
- h. Management has provided the review captain with all relevant information including all engagements with periods ending during (or, for financial forecasts or projections and agreed-upon procedures engagements, report dates in) the year under review.
- i. Management has disclosed to the review captain that the firm did not perform any engagements under the Statements on Auditing Standards (SASs) or *Government Auditing Standards*, examinations under the SSAEs, or audits or examinations under the Public Company Accounting Oversight Board (PCAOB) standards that are not subject to PCAOB permanent inspection.
- j. Management acknowledges that failure to properly include these engagements on the list could be deemed as failure to cooperate and may result in termination from the Peer Review Program and, if termination occurs, may result in an investigation of a possible violation by the appropriate regulatory, monitoring, or enforcement body.
- k. Management has provided to the review captain communications or summaries of communications from regulatory, monitoring, or enforcement bodies relating to allegations or investigations of deficiencies in the conduct of an accounting or attestation engagement performed and reported on by the firm, whether the matter relates to the firm or its personnel, within three years preceding the current peer review year-end.
- l. Management has disclosed that there are no known limitations or restrictions on the firm's or its personnel's ability to practice public accounting by regulatory, monitoring, or enforcement bodies within three years preceding the current peer review year-end, or management has included a summary of the limitations or restrictions on the firm's or its personnel's ability to practice public accounting by regulatory, monitoring, or enforcement bodies within three years preceding the current peer review year-end.

[Paragraphs .17–.A18 are unchanged.]

.A19 Representation by management regarding its responsibility for designing, implementing, and operating its system of quality management for its accounting and auditing practice may be tailored when any indication exists that management misunderstands those responsibilities or changes in circumstances make it appropriate to tailor the representation. For example, when a reviewer

becomes aware that the reviewed firm has not designed, implemented, or operated a system of quality management, it may be appropriate to tailor this representation to state, “Management acknowledges and understands its responsibility for designing, implementing, and operating a system of quality management for our accounting and auditing practice that provides us with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.”

[Paragraphs .A20–.A21 are unchanged.]