Peer Review Standards Update No. 2, *Reviewing A Firm's System of Quality Management and Omnibus Technical Enhancements*

(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 November 4, 2024

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Executive Summary

Introduction

This memorandum provides a summary of Peer Review Standards Update (PRSU) No. 2, *Reviewing a Firm's System of Quality Management and Omnibus Technical Enhancements*, 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 and has historically evaluated systems of quality control under which those engagements are performed. 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.

This PRSU has been developed by the board to revise the standards with conforming and other enhancive updates in consideration of the issuance of the following quality management standards (collectively, the QM standards) issued by the Auditing Standards Board (ASB) and other related standard setters:

- Statement on Quality Management Standards (SQMS) No. 1, *A Firm's System of Quality Management*[2]
- SQMS No. 2, *Engagement Quality Reviews*
- Statement on Auditing Standards (SAS) No. 146, *Quality Management for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards*[3]
- Statement on Standards for Accounting and Review Services (SSARS) No. 26, *Quality Management for an Engagement Conducted in Accordance With Statements on Standards for Accounting and Review Services*[4]

The most significant change in the new QM standards is the introduction of a risk-based approach to achieve quality objectives, which helps firms identify and address risks specific to their practice and creates a more scalable approach to quality for all firms. The QM standards also do the following:

- Increase firm leadership responsibilities and accountability, and improve firm governance.
- Address technology, networks, and the use of external service providers.
- Increase focus on the continual flow of information and appropriate communication, internally and externally.
- Promote proactive monitoring of quality management systems and timely and effective remediation of deficiencies according to the SQMSs.
- Clarify and strengthen requirements for a more robust engagement quality review.
- Enhance the engagement partner's responsibility for audit engagement leadership and audit quality.

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

[2] Statements on Quality Management Standards (SQMSs) are codified in the QM sections in AICPA *Professional Standards*.

[3] Statements on Auditing Standards (SASs) are codified in the AU-C sections in AICPA *Professional Standards*.

[4] Statements on Standards for Accounting and Review Services (SSARSs) are codified in the AR-C sections in AICPA *Professional Standards*.

Scope of Changes in PRSU No. 2

The peer review standards will continue to include requirements and application and other explanatory material for two types of peer reviews based on the highest level of service in a firm's accounting and auditing practice (system reviews and engagement reviews).

As described in paragraph .09 of PR-C section 100, firms that perform engagements under the SASs or *Government Auditing Standards*, examinations under the Statements on Standards for Attestation Engagements (SSAEs), or audits or examination engagements under PCAOB standards as their highest level of service must have system reviews. Firms are eligible to have engagement reviews if the highest level of service does not require a system review and is performed under the SSARSs or the SSAEs or is an other attestation engagement under PCAOB standards.

The changes included in this PRSU are intended to address requirements and related application and other explanatory material that affect performing and reporting on system reviews. Other than changing terminology from "quality control" to "quality management," the nature and scope of engagement reviews are unchanged.

Performing Peer Reviews of a Firm's System of Quality Management

To effectively report on a firm's system of quality management in a system review, peer reviewers will need to evaluate whether a reviewed firm's system is suitably designed, implemented, and operated according to the QM standards, taking into consideration the nature and complexity of the firm's auditing and accounting practice.

The board would like to emphasize that operating a firm's system of quality management is an iterative process and, therefore, a reviewed firm's procedures and documentation regarding various components of the system may be performed at different points in time during a one-year period. In particular, the QM standards are designed to be scalable based on the nature and complexity of a firm's audit and accounting practice. Thus, reviewer judgment will be critical to evaluate a firm's documentation of its established quality objectives, identification and assessment of risks to achieving the quality objectives, and the design and implementation of responses to address quality risks.

Timing Considerations, Resources, and Effective Date

The board recognizes that firms will implement the QM standards at various points in time, including instances when a firm implements the QM standards during its peer review year. Peer review stakeholders are advised that the changes in this PRSU are intended to address long-term needs of the program, and thus, the revisions to the standards do not address considerations for reviewing a firm that has partially implemented the QM standards during its peer review year. For these situations, the board will issue separate communications to provide reviewers and other stakeholders with considerations to assist with evaluating partial implementation and reporting thereon.

To assist with considerations for implementing the QM standards, the board is currently developing other guidance that may be used to assist with determining the significance of various implementation issues that may be encountered when reviewing a firm's system of quality

management. Additionally, peer review stakeholders are encouraged to review and utilize resources including, but not limited to, the following:

- Practice aids to help firms establish a quality management system, available on the AICPA website at https://www.aicpa-cima.com/resources/download/free-practice-aid-set-up-your-a-and-a-quality-management-system
- Guidance on how to implement the risk-based quality management standards published in the *Journal of Accountancy*

Considering that all firms are required to implement the QM standards by December 15, 2025, the updates to the peer review standards in this PRSU will be effective for firms with peer review years ending on or after December 31, 2025. Until such time, it is expected that peer reviews will continue to evaluate and report on a firm's system of quality control according to the Statements on Quality Control Standards (SQCSs).[5]

Summary of Changes

Updates in this PRSU include modifications to various requirements and application and other explanatory material to account for appropriate terminology and related requirements of the QM standards. Additionally, several other technical enhancements or minor corrections are included as part of the board's continual effort to maintain standards that are easy to read, understand, and apply.

In addition to conforming revisions that address the name change from "quality control" to "quality management," the following summary represents revisions that the board believes to be most significant and responsive to the recently issued QM standards, among other omnibus technical enhancements to provide additional guidance or clarification related to existing requirements or application and other explanatory material.

[5] The Statements on Quality Control Standards are codified in the QC sections in AICPA *Professional Standards*.

PR-C Paragraph	***Summary of Change***	***Reason[6]***
PR-C Section 100, *Concepts Common to All Peer Reviews*		
.01	Revised to further clarify that any reference to users of the standards is to include firms, peer reviewers, and administering entities (AEs).	O
.11	Revised to clarify the definitions of a design matter and an operating effectiveness (formerly "compliance") matter; accordingly, new paragraphs (.A17 and .A23) are introduced as application and other explanatory material to indicate that such matters may be elevated to a finding, deficiency, or significant deficiency in a firm's system of quality management.	QM
.11	Revised to include a definition for "enrollment date," consistent with the existing requirement in paragraph .23 that states firms should enroll no later than the date a firm issues the report on its first engagement within the scope of the standards.	O
.11	Revised to include a definition for "facilitated state board access" (FSBA), which is used to provide state boards of accountancy with access to peer review results and other objective information.	O
.11	Revised to clarify that the definition of a "finding" in a system review is one or more related matters that result from the same systemic cause.	QM
.11	Revised the definition of "quality control function" to more clearly state that an individual in this role could be responsible for supervising the firm's internal inspection process.	
.19	Revised to clarify the requirement for confidential information to be disclosed only as required by law with the reviewed firm's written permission or a valid subpoena.	O
.A8	Revised for consistency with objectives established by the QM standards.	QM
.A12	Revised to clarify that the International Accounting Standards Board (IASB) is recognized by AICPA Council to promulgate technical standards and, therefore, engagements subject to U.S. professional standards and International Financial Reporting Standards (IFRS Standards) are included in the scope of the Peer Review Program.	O
Various	Revised requirements and application and other explanatory material with conforming changes to align with requirements of the QM standards and to address the name change from "quality control" to "quality management."	QM
PR-C Section 200, *General Principles and Responsibilities for Reviewers*		
.A5	Revised to provide a transition period for reviewers that retire from a firm and remain actively licensed to practice public accounting, to allow such individuals to continue serving as team members to assist with succession planning and to mentor less experienced peer reviewers.	O
Various	Revised requirements and application and other explanatory material with conforming changes to align with requirements of the QM	QM

[6] Revisions made in response to requirements of the QM standards are labeled with "QM." Other revisions made as omnibus technical enhancements are labeled with "O."

PR-C Paragraph	***Summary of Change***	***Reason[6]***
	standards and to address the name change from “quality control” to “quality management.”	
PR-C Section 210, *General Principles and Responsibilities for Reviewers — System Reviews*		
.03	Revised for consistency with objectives established by the QM standards.	QM
.07	Revised to extend the period of time (from 12 to 18 months) for certain reviewer training to be taken before commencement of a review.	O
.70	Revised to require peer reviewers to submit completed quality management checklists as part of documents required to be submitted to all AEs.	QM
.70	Revised to require peer reviewers to submit any completed alternative practice structure checklists as part of documents required to be submitted to all AEs, as applicable.	O
.A5	Revised to describe quality management documentation that peer reviewers are likely to evaluate when planning a peer review.	QM
.A7	Revised to indicate reviewers will likely need to consider the results of the reviewed firm’s (at least annual) evaluation of its system of quality management.	QM
.A11	Revised to describe peer review control risk factors for consistency with the eight components described in the QM standards.	QM
Various	Revised requirements and application and other explanatory material with conforming changes to align with requirements of the QM standards and to address the name change from “quality control” to “quality management.”	QM
PR-C Section 220, *General Principles and Responsibilities for Reviewers — Engagement Reviews*		
.13	Revised to introduce a new application and other explanatory material paragraph (.A8) that provides an example of an appropriate engagement selection in engagement reviews. Additionally, extant paragraph .A6 is revised for further clarification of engagement selection criteria.	O
Various	Revised requirements and application and other explanatory material with conforming changes to align with requirements of the QM standards and to address the name change from “quality control” to “quality management.”	QM
PR-C Section 300, *General Principles and Responsibilities for Reviewed Firms*		
.09	Revised to introduce a new paragraph (.A3) in application and other explanatory material to prompt a reviewed firm to consider, for out-of-state licensure purposes, whether one or more of its state boards of accountancy require its peer review results to be provided through FSBA.	O
.A15 and .A16	Revised to clarify extant application and other explanatory material and to distinguish that peer review results and other objective information may be shared with state boards of accountancy through FSBA. Accordingly, a new paragraph (.A18) is introduced to specify	O

PR-C Paragraph	***Summary of Change***	***Reason[6]***
	other objective peer review information that may be shared through FSBA.	
Various	Revised requirements and application and other explanatory material with conforming changes to align with requirements of the QM standards and to address the name change from "quality control" to "quality management."	QM
PR-C Section 310, *General Principles and Responsibilities for Reviewed Firms — System Reviews*		
.16	Introduces a new paragraph (.A24) in application and other explanatory material that provides an example to describe when written representations may be tailored based on circumstances of a system review, specifically, when peer review results indicate management has not fulfilled its responsibility for designing, implementing, and operating a system of quality management.	O
.A6	Revised for consistency with objectives established by the QM standards.	QM
Various	Revised requirements and application and other explanatory material with conforming changes to align with requirements of the QM standards and to address the name change from "quality control" to "quality management."	QM
PR-C Section 320, *General Principles and Responsibilities for Reviewed Firms — Engagement Reviews*		
.A5	Revised for consistency with changes previously described regarding engagement selection in section 220.	O
.A19	Introduces a new paragraph in application and other explanatory material that provides an example to describe when written representations may be tailored based on circumstances of an engagement review; specifically, when a reviewer becomes aware that management has not fulfilled its responsibility for designing, implementing, and operating a system of quality management.	QM
Various	Revised requirements and application and other explanatory material with conforming changes to align with requirements of the QM standards and to address the name change from "quality control" to "quality management."	QM
PR-C Section 400, *General Principles and Administration Responsibilities*		
.08	Revised for consistency with changes related to sharing information through FSBA as previously described in section 300. Accordingly, paragraph .A11 is revised and a new paragraph (.A12) is introduced with additional guidance related to sharing other objective information through FSBA.	O
.A28	Revised to clarify the original intent of the requirement regarding current experience of RAB members.	
.A41	Revised to clarify certain situations where, due to timing and availability of training courses, it may be impractical to require a new technical reviewer to complete both parts of the initial team captain	

PR-C Paragraph	*Summary of Change*	*Reason*[6]
	training requirement before performing their first technical review; therefore, AEs may need to implement safeguards for the period of time necessary for the technical reviewer to complete all required training courses.	
Various	Revised requirements and application and other explanatory material with conforming changes to align with requirements of the QM standards and to address the name change from "quality control" to "quality management."	QM
PR-C Section 410, *The Report Acceptance Process*		
.05	Revised to require technical reviewer evaluation of system reviews to include review of quality management checklists and any explanation of "no" answers.	QM
.11	Revised to reference a new application and other explanatory material paragraph (.A6) that indicates a report acceptance body (RAB) may request quality management checklists to be provided in RAB materials to assist with evaluating a reviewer's procedures performed and conclusions reached.	QM
.11	Revised to remove prior review implementation plan letters from the list of required documents to be provided in RAB materials.	O
Various	Revised requirements and application and other explanatory material with conforming changes to align with requirements of the QM standards and to address the name change from "quality control" to "quality management."	QM
PR-C Section 420, *Corrective Actions and Implementation Plans*		
.A16 (exhibit C)	Revised to clarify the allowable implementation plan requiring a firm to hire an outside party to review a firm's completion of intended remedial actions stated on a finding for further consideration (FFC) form.	O
.A17 (exhibit D)	Revised to clarify that certain corrective actions are suggested when deficiencies or significant deficiencies do not relate to the engagement performance component of a firm's system of quality management.	O
Various	Revised requirements and application and other explanatory material with conforming changes to align with requirements of the QM standards and to address the name change from "quality control" to "quality management."	QM
PR-C Section 430, *Reviewer Performance*		
Various	Revised requirements and application and other explanatory material with conforming changes to align with requirements of the QM standards and to address the name change from "quality control" to "quality management."	QM

Effective Date

- Omnibus technical enhancements are effective for peer reviews commencing on or after December 1, 2024.
- Quality management–related revisions to the standards are effective for peer reviews with years ending on or after December 31, 2025.

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Peer Review Standards Update No. 2, *Reviewing a Firm's System of Quality Management and Other Omnibus Technical Enhancements*

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

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

Introduction

Scope of This Section

.01 This section contains general principles and responsibilities for the AICPA Peer Review Program (the program) and applies to ***users of these standards including***

a. firms and individuals (Ref: par. .45–.47) enrolled in the program (Ref: par. .A1),

b. firms and individuals who perform and report on peer reviews, and

c. administering entities (AEs) of peer reviews (Ref: par. .A2).

The AICPA Peer Review Board (board), among other responsibilities, determines program enrollment eligibility, peer reviewer qualifications, and who may administer the program.

[Paragraphs .02–.04 are unchanged.]

Relationship of Peer Review With Quality ~~Control~~ *Management* Standards

.05 Users of these standards should understand the quality ~~control~~ ***management*** standards established by the AICPA. The firm's system of quality ~~control~~ ***management*** may affect both the conduct of individual engagements and the conduct of a firm's accounting and auditing practice. However, deficiencies in or instances of noncompliance with a firm's system of quality ~~control~~ ***management*** do not, in and of themselves, indicate that an engagement was not performed in accordance with the requirements of the applicable professional standards. (Ref: par. .A8–.A9)

[Paragraphs .06–.10 are unchanged.]

Definitions

.11 For the purposes of all sections of these standards, the following terms have the meanings attributed as follows:

[The content of all other definitions in this paragraph is unchanged.]

~~**Compliance matter.** When a firm's properly designed quality control policy or procedure does not operate as designed, as evidenced by the failure of reviewed firm personnel to comply with such system.~~

[The "compliance matter" definition has been revised, renamed "operating effectiveness matter," and re-alphabetized.]

Control risk. The risk that an engagement will not be performed or reported on in conformity with the requirements of applicable professional standards in all material respects due to a failure in the reviewed firm's system of quality ~~control~~ ***management***.

Deficiency (system reviews). When evaluating the reviewed firm's system of quality ~~control~~ ***management*** taken as a whole, one or more matters that the team captain has concluded could create a situation in which the reviewed firm would not have reasonable assurance of performing or reporting in conformity with the requirements of applicable professional standards in one or more important respects. Deficiencies should be documented in a peer review report with a rating of *pass with deficiencies*.

Design matter. When the ***design of a*** reviewed firm's system of quality ~~control~~ ***management does not identify or mitigate one or more quality risks.*** ~~is missing a quality control policy or procedure or the reviewed firm's existing quality control policies and procedures, even if fully complied with, would likely result in engagements not performed or reported on in accordance with professional standards.~~ ***(Ref: par. .A23)***

Detection risk. The risk that the reviewer will fail to detect deficiencies or significant deficiencies in the reviewed firm's system of quality ~~control~~ ***management***.

Engagement partner. The partner or other ~~person in~~ ***individual appointed by*** the firm who is responsible for the engagement and its performance***,*** and for the report that is issued on behalf of the firm***,*** and who, when required, has the appropriate authority from a professional, legal, or regulatory body.

Enrollment date. ***The date a firm enrolls in the program, which should be no later than the date the firm issues the report on its first engagement within the scope of the standards.***

Facilitated state board access (FSBA). ***The process a firm uses to allow AEs to provide state boards of accountancy with secure access to its peer review results, additional documents, and other objective peer review information.***

Finding (system reviews). One or more related matters ***with the same systemic cause related to designing, implementing, or operating*** ~~*or complying with*~~ ***the*** ~~that result from a condition in the~~ reviewed firm's system of quality ~~control~~ ***management*** ~~or compliance with the system~~ such that there is more than a remote possibility that the reviewed firm would not perform or report in conformity with the requirements of applicable professional standards. A finding should be documented as a finding for further consideration (FFC) on an FFC form.

Inherent risk. In the absence of a system of quality ~~control~~ ***management***, the risk of a reviewed firm's engagement not being performed or reported on in conformity with the requirements of applicable professional standards in all material respects.

Isolated matter. An incident (or limited incidents) of noncompliance with professional standards or the firm's ***system of*** quality ~~control~~ ***management*** ~~control policies and procedures~~ on one or more engagements (or ~~elements~~ ***components*** of the ***system of*** quality ~~control~~ ***management*** ~~system~~), but the same ~~standards or policies and procedures were complied with~~ ***incident did not occur*** on ~~the remaining~~ ***other*** selected engagements or ~~elements~~ ***components***. (Ref: par. .A***24*** ~~22~~)

Matter. One or more "no" answers to questions in peer review checklists identified during a system review or an engagement review.

- *Engagement reviews.* One or more "no" answers to questions in peer review checklists that were not resolved to the review captain's satisfaction. These are documented as matters for further consideration (MFCs) on an MFC form. (Ref: sections 220 and 320)

- *System reviews.* One or more "no" answers to questions in peer review checklists that a reviewer concludes warrant further consideration in the evaluation of a firm's system of quality ~~control~~ ***management***. A matter should be documented as a matter for further consideration (MFC) on an MFC form. (Ref: sections 210 and 310)

Operating effectiveness (compliance) matter. When a***n aspect of a*** firm's properly designed ***system of*** quality ~~control~~ ***management*** ~~policy or procedure~~ ***is not implemented or*** does not operate as designed, as evidenced by the failure of the reviewed firm to comply with such system. ***(Ref: par. .A17)***

[The "operating effectiveness (compliance) matter" definition was previously called "compliance matter."]

Partner. Any individual with authority to bind the firm with respect to the performance of a professional services engagement. ***For purposes of this definition,*** ~~P~~***p****artner*~~s~~ may include ***an*** employee~~s~~ with this authority who ha***s***~~ve~~ not assumed the risks and benefits of ownership. Firms m***ight***~~ay~~ use different titles to refer to individuals with this authority.

Peer review risk. The risk that the reviewer issues an inappropriate report on the firm's system of quality ~~control~~ ***management***. It is composed of inherent risk, control risk, and detection risk.

Personnel. Partners and staff ***in the firm***.

Quality ~~control~~ *management* **function.** ***A quality management function can entail either (*****a) p*****~~P~~**erforming an engagement quality ~~control~~ review as part of the engagement performance ~~element~~ ***component*** of a firm's system of quality ~~control~~ ***management*** or ***(*****b)*** supervising or performing an inspection as part of the monitoring ***and remediation component*** ~~element~~ of a firm's system of quality ~~control~~ ***management***.

Report ratings (system reviews). A peer review report can have one of three possible ratings: (Ref: par. .A***30*** ~~28~~–.A***31*** ~~29~~)

Pass. The system of quality ~~control~~ ***management*** for the accounting and auditing practice of the reviewed firm in effect for the year ended has been suitably designed***, implemented, and operated*** ~~and complied with~~ to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.

Pass with deficiencies. Except for the deficiencies described, the system of quality ~~control~~ ***management*** for the accounting and auditing practice of the reviewed firm in effect for the year ended has been suitably designed***, implemented, and operated*** ~~and complied with~~ to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.

Fail. As a result of the significant deficiencies described, the system of quality ~~control~~ ***management*** for the accounting and auditing practice of the reviewed firm in effect for the year ended was not suitably designed***, implemented,*** or ***operated*** ~~complied with~~ to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.

Significant deficiency. One or more matters in a system review that the reviewer has concluded create a situation in which the reviewed firm's system of quality ~~control~~ ***management*** does not provide the reviewed firm with reasonable assurance of performing or reporting in conformity with the requirements of applicable professional standards in all material respects. Significant deficiencies should be documented in a peer review report with a rating of *fail*.

Surprise engagement. The engagement selection provided to the firm to mitigate the risk that the firm has not ***operated*** ~~complied with~~ the firm's ***system of quality management*** ~~policies and procedures~~ related to timely completion of the assembly of final engagement files by engagement teams.

Systemic cause (system reviews). A condition in the firm's system of quality ~~control~~ ***management*** that allowed noncompliance to occur and remain undetected.

Requirements

[Paragraphs .12–.18 are unchanged.]

.19 Confidential information should be disclosed only as required by law ***(with the firm's written permission or in response to a valid subpoena)***, or in accordance with sections 200 and 400, (Ref: par. .A***36*** ~~34~~)

a. to anyone not involved in performing the review,

b. to anyone not administering or carrying out the program, or

c. for use in any way not related to meeting the objectives of the standards.

[Paragraphs .20–.22 are unchanged.]

.23 A firm should enroll in the program no later than the date the firm issues the report on its first engagement within the scope of the standards ~~(enrollment date)~~.

[Paragraphs .24–.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. .A***49***~~47~~)

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 ~~control~~ ***management*** materials (***QMM***~~QCM~~) (or is affiliated with a provider of ***QMM***~~QCM~~) that are used by firms that it peer reviews.

[Paragraphs .36–.53 are unchanged.]

Application and Other Explanatory Material

[Paragraphs .A1–.A7 are unchanged.]

Relationship of Peer Review With Quality ~~Control~~ *Management* Standards (Ref: par. .05)

.A8 ***A system of q***Quality ~~control~~ ***management is*** ~~systems, policies, and procedures are~~ the responsibility of the firm in conducting its accounting and auditing practice. Under QM section 10~~A~~,[7] *A Firm's System of Quality* ~~*Control*~~***Management***,[8] the ***objective of the*** firm ~~has an obligation~~ ***is*** to ***design, implement, and operate*** ~~establish and maintain~~ a system of quality ~~control~~ ***management for engagements performed by the firm in its accounting and auditing practice that*** ~~to~~ provide***s the firm*** ~~it~~ with reasonable assurance that

a. the firm and its personnel ***fulfill their responsibilities in accordance*** ~~comply~~ with professional standards and applicable legal and regulatory requirements and ***conduct engagements in accordance with such standards and requirements, and***

b. ***engagement*** reports issued by the firm are appropriate in the circumstances.

.A9 The nature and extent of a firm's system of quality ~~control~~ ***management*** depend on factors such as ~~its~~***the firm's*** size, the degree of operating autonomy allowed its personnel and its practice

[7] Prior to the release of Statement on Quality Management Standards (SQMS) Nos. 1–2, AICPA *Professional Standards* used a "QC" identifier to refer to ***the codification of the standard*** *A Firm's System of Quality Control*. Upon the issuance of SQMS Nos. 1–2, which supersede ***QC section 10,*** *A Firm's System of Quality Control*, the title "***q***Quality ***c***~~C~~ontrol" was changed to "***q***Quality ***m***~~M~~anagement," and the section identifiers were changed to "QM." ~~Continue to select "QC – Quality Control" for MFC form professional standard references.~~

[8] All ***QM***~~QC~~ sections can be found in AICPA *Professional Standards*.

offices, the nature of its practice, its organization, and appropriate ***risk-based*** ~~cost-benefit~~ considerations.

[Paragraphs .A10–.A15 are unchanged.]

.A16 Indications of when a reviewer has learned information that affects the results of the review include, but are not limited to, the following examples:

a. A reviewer identifies a design deficiency in the firm's system of quality ~~control~~ ***management***.

b. A reviewer learns about the firm's noncompliance with state board of accountancy licensing requirements.

.A17 ***For peer review purposes, an operating effectiveness matter may be elevated to a finding, deficiency, or significant deficiency in a firm's system of quality management as described in paragraphs .43–.58 of section 210.***

[Paragraphs .A17–.A21 are renumbered to .A18–.A22. The content is unchanged.]

.A23 ***For peer review purposes, a design matter may be elevated to a finding, deficiency, or significant deficiency in a firm's system of quality management as described in paragraphs .43–.58 of section 210.***

.A*24*~~22~~ More than one incident of noncompliance may still be considered isolated if the reviewer is able to conclude there is no systemic cause and such instances of noncompliance are insignificant to the reviewer's evaluation of the firm's system of quality ~~control~~ ***management***.

[Paragraphs .A23–.A56 are renumbered to .A25–.A58. The content is unchanged.]

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

[Paragraphs .01–.04 are unchanged.]

Requirements

Reviewer Qualifications

.05 To qualify as a reviewer, CPAs should consider whether their day-to-day involvement in their firm's accounting and auditing practice is sufficiently comprehensive to enable them to perform a peer review with professional expertise. At a minimum, a reviewer should meet the following qualifications: (Ref: par. .A1)

a. Be a member of the AICPA in good standing, licensed to practice as a CPA, and employed by or an owner of a firm enrolled in the program. (Ref: par. .A2)

b. Be in public practice as a partner, manager, or person with equivalent responsibilities in the accounting or auditing practice or carrying out a quality ~~control~~ ***management*** function in the CPA's firm. (Ref: par. .A3)

c. Have current practice experience by performing or supervising accounting or auditing engagements in the CPA's firm or carrying out a quality ~~control~~ ***management*** function in the firm, with reports dated within the last 18 months. (Ref: par. .A4~~–~~***.A5***)

d. Have spent the last five years in the practice of public accounting in the accounting or auditing function.

e. Be employed by or be the owner of a firm that has received a report with a peer review rating of *pass* or *pass with scope limitations* for its most recent peer review. (The report should have been accepted timely.) (Ref: par. .A***6***~~5~~–.A***7***~~6~~)

f. Possess appropriate experience and current knowledge of professional standards related to the kind of practice and the industries of the engagements to be reviewed. (Ref: par. .A***8***~~7~~)

g. Obtain at least 48 hours of AICPA-required continuing professional education (CPE) every 3 years in subjects relating to accounting, auditing, and quality ~~control~~ ***management*** with a minimum of 8 hours in any 1 year.

h. Be free of restrictions from regulatory or governmental bodies on the CPA's ability to practice public accounting. (Ref: par. .A***9***~~8~~)

i. Provide qualifications and experience via a reviewer resume.

[Paragraphs .06–.13 are unchanged.]

.14 The reviewer's resume should provide the following information for the AE to determine if the reviewer has current or recent experience by level of service, engagement, and industry: (Ref: par. .A***22***~~21~~ and .A***23***~~22~~)

a. Whether the reviewer was performing, supervising, or carrying out a quality ~~control~~ ***management*** function

b. The date of the last report for the engagement the reviewer was involved in

c. The approximate number of engagements the reviewer was involved in

d. Whether the reviewer currently meets relevant industry-specific educational requirements

e. Whether experience was obtained from the reviewer's firm or another firm (Ref: par. .A***24***~~23~~)

[Paragraph .15 is unchanged.]

Ethical Requirements Relating to a Peer Review

.16 The reviewer must be independent from the reviewed firm. The reviewer's independence would be considered impaired in the following circumstances:

a. A reviewer or a reviewer's firm participates in a reciprocal peer review. (Ref: par. .A***25***~~24~~)

b. A reviewer who owns securities or has an interest in a reviewed firm's client reviews an engagement of that client.

c. A reviewer who was directly involved in the development, maintenance, or distribution of the reviewed firm's quality ~~control~~ ***management*** materials; reports to those who were directly responsible for the development, maintenance, or distribution of the materials; or receives more than a *de minimus* amount of revenues or other monies generated by the sale of the materials, reviews an engagement performed and reported on using those materials.

d. Fees for any products or services provided or shared between firms are material to any party to the peer review. (Ref: par. .A***26***~~25~~)

e. Products or services provided to or shared by the reviewed firm are an integral part of the reviewed firm's system of quality ~~control~~ ***management***. (Ref: par. .A***27***~~26~~ –.A***28***~~27~~)

f. The reviewing firm performed the monitoring of the reviewed firm's accounting and auditing practice or pre- or post-issuance reviews of engagements with periods ending during (or, for financial forecasts, projections, or agreed-upon procedures engagements, report dates in) the year immediately preceding or during the peer review year.

[Paragraphs .17–.24 are unchanged.]

Obtaining Written Representations

.25 The captain should request written representations from members of management of the firm whom the captain 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~~ ***management***. (Ref: par. .A***34***~~33~~–.A***35***~~34~~)

[Paragraphs .26–.38 are unchanged.]

Application and Other Explanatory Material

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

[Paragraphs .A1–.A4 are unchanged.]

.A5 ***A reviewer who retires from a firm, but remains actively licensed to practice public accounting may continue to serve as a team member on peer reviews during the 36-month period after the individual's date of retirement, as long as the reviewer***

1. ***submits a request with the effective date of retirement in writing to the AICPA for approval,***

2. ***meets the requirement in paragraph .05 as of the date of retirement, and***

3. ***meets the following qualifications after retirement:***

   a. ***Be a member of the AICPA in good standing, licensed to practice as a CPA.***

   b. ***Possess appropriate experience and current knowledge of professional standards related to the kind of practice and the industries of the engagements to be reviewed.***

   c. ***Obtain at least 48 hours of AICPA-required continuing professional education (CPE) every 3 years in subjects relating to accounting, auditing, and quality management with a minimum of 8 hours in any 1 year.***

   d. ***Be free of restrictions from regulatory or governmental bodies on the CPA's ability to practice public accounting.***

   e. ***Provide qualifications and experience via the reviewer's resume.***

[Paragraphs .A5–.A20 are renumbered to .A6–.A21. The content is unchanged.]

.A*22***~~21~~** Current experience is performing, supervising, or carrying out a quality ~~control~~ ***management*** function on an engagement with a report date within the last 18 months.

.A*23***~~22~~** Recent experience is having performed, supervised, or carried out a quality ~~control~~ ***management*** function on an engagement in the reviewer's firm within the last five years.

[Paragraphs .A23–.A24 are renumbered to .A24–.A25. The content is unchanged.]

.A*26~~25~~* Examples of products or services include, but are not limited to,

a. consultation;

b. expenses, office facilities, or personnel; and

c. quality ~~control~~ ***management*** materials ***(QMM)***.

.A*27~~26~~* To evaluate whether products or services provided or shared are an integral part of a firm's system of quality ~~control~~ ***management***, the reviewer and reviewed firm consider the following factors:

a. The size of the affected portion of the practice (Ref: par. .A27)

b. The risk associated with the affected portion of the practice (for example, must-select industries)

c. The degree of the reviewed firm's reliance on the product or service provided or shared

d. The significance of the product or service provided or shared

If the products or services provided or shared are ***QMM*** ~~quality control materials (QCM)~~ that are an integral part of a firm's system of quality ~~control~~ ***management***, a ***QMM*** ~~QCM review under the Standards for Performing and Reporting on Peer Reviews~~[9] ~~or an~~ examination under the Statements on Standards for Attestation Engagements[10] could be an appropriate safeguard to offset a potential independence impairment. However, the effectiveness of this safeguard will depend on the facts and circumstances of each peer review.

[Paragraphs .A27–.A30 are renumbered to .A28–.A31. The content is unchanged.]

Reviewed Firm Acquisition or Divestiture (Ref: par. .21)

.A*32~~31~~* 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~~ ***management*** for reports issued under the firm's name during that year.

[Paragraphs .A32–.A33 are renumbered to .A33–.A34. The content is unchanged.]

[9] ~~A QCM review is only available under the Standards for Performing and Reporting on Peer Reviews effective for peer reviews commencing before May 1, 2022.~~

[10] The Statements on Standards for Attestation Engagements are codified in the AT-C sections in AICPA *Professional Standards*.

.A*35*~~3~~4 Members of management responsible for and knowledgeable about the required representations normally include the managing partner and partner in charge of the firm's system of quality ~~control~~ ***management***.

[Paragraphs .A35–.A45 are renumbered to .A36–.A46. The content is unchanged.]

PR-C Section 210, *General Principles and Responsibilities for Reviewers — System Reviews*

[Paragraphs .01–.02 are unchanged.]

Objectives

.03 The objectives of the reviewer, in conducting a system review, are to do the following:

a. Obtain reasonable assurance that the reviewed firm's system of quality ~~control~~ ***management*** for its accounting and auditing practice has been designed***, implemented,*** and ~~complied with~~ ***operated*** to provide the firm with reasonable assurance ***that***

i. the firm and its personnel fulfill their responsibilities in accordance with professional standards and applicable legal and regulatory requirements and conduct engagements in accordance with applicable standards and requirements and

ii. engagement reports issued by the firm are appropriate in the circumstances ~~of performing or reporting in conformity with the requirements of applicable professional standards in all material respects~~.

b. Report on the reviewed firm's system of quality ~~control~~ ***management*** and communicate as required by the Standards for Performing and Reporting on Peer Reviews (the standards) established by the Peer Review Board (the board) of the American Institute of Certified Public Accountants, in accordance with the reviewer's conclusions.

[Paragraphs .04–.05 are unchanged.]

Reviewer Qualifications for Must-Select and Must-Cover Engagements

.06 In addition to the qualifications discussed in section 200, a reviewer of must-select engagements should meet the following criteria: (Ref: par. .A2)

a. Have completed additional training focused on must-select engagements that meets the requirements of the board. (Ref: par. .A3)

b. Be currently involved in one of the following areas in the must-select engagements in the reviewer's firm:

i. Supervising or performing engagements

ii. Performing engagement quality ~~control~~ reviews on engagements

iii. Performing the inspection of must-select engagements as part of the firm's monitoring process

c. Be employed by or be an owner of a firm that is a member of the respective audit quality center, if applicable.

.07 The additional training requirements in paragraph~~s .05 and~~ .06 should be completed within ~~one year~~***18 months*** prior to the commencement of the review of a must-select engagement.

[Paragraph .08 is unchanged.]

Planning

[Paragraph .09 is unchanged.]

.10 The reviewer should obtain the following from the reviewed firm:

a. Information regarding each engagement in the firm's accounting and auditing practice with a period end date (report date for financial forecasts, financial projections, and agreed-upon procedures engagements) during the peer review year and issued by the commencement date to allow the reviewer to be able to identify

i. the level of service,

ii. the number of audit or accounting hours (actual, if available, or estimated),

iii. the engagement partner,

iv. the industry,

v. whether an engagement was an initial engagement,

vi. the office (if applicable), and

vii. whether an engagement was a must-select or must-cover engagement (if applicable) (Ref: par. .A23)

b. A list of firm personnel (Ref: par. .A4)

c. Responses to inquiries about the areas to be addressed in the written representations

d. The firm's prior

i. peer review report,

ii. letter of response (if applicable),

iii. letter of acceptance,

iv. findings for further consideration (FFCs) (if applicable), and

v. representation letter

e. The firm's quality ~~control~~ ***management*** documentation (Ref: par. .A5)

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

.11 The reviewer should obtain an understanding of the firm's accounting and auditing practice and system of quality ~~control~~ ***management*** with respect to each of the quality ~~control~~ ***management*** ~~elements~~ ***components*** in accordance with quality ~~control~~ ***management*** standards established by the AICPA.

.12 The understanding obtained by the reviewer should include knowledge about

a. the firm's organization,

b. the composition of its accounting and auditing practice, and

c. the design of the reviewed firm's ~~quality control policies and procedures~~***system of quality management*** in accordance with quality ~~control~~ ***management*** standards established by the AICPA.

.13 To obtain an understanding of the firm's accounting and auditing practice and system of quality ~~control~~ ***management***, the reviewer should do the following:

a. Inquire of appropriate management and other personnel.
~~*b.* Review the firm's internal policies and procedures.~~

b. Review the firm's quality ~~control~~ ***management*** documentation***, including its identified quality objectives, quality risks, and responses thereto***.

c. Inquire of the firm regarding ~~elements~~ ***aspects*** of the system of quality ~~control~~ ***management*** residing outside of the firm. (Ref: par. .A6)

d. ***Review the firm's monitoring and remediation process.***

e. ***Review the firm's evaluation and conclusions reached regarding its system of quality management.***

f. Complete the applicable quality ~~control~~ ***management*** checklists.

.14 When obtaining an understanding of the firm's system of quality ~~control~~ ***management***, the reviewer should evaluate the ~~design of the~~ firm's ***system*** ~~quality control policies and procedures~~in relation to the size and nature of the firm's accounting and auditing practice and determine if the system ~~of quality control~~ is appropriately comprehensive and suitably designed.

Understanding and Assessing Peer Review Risk

.15 The reviewer should use the understanding of the firm's accounting and auditing practice and system of quality ~~control~~ ***management*** to assess inherent and control risks. The assessment of risk is qualitative and not quantitative.

[Paragraph .16 is unchanged.]

.17 To assess control risk, the reviewer should consider the results of assessing the ***design of the*** firm's ***system*** ~~design of its policies and procedures~~ according to quality ~~control~~ ***management*** standards established by the AICPA. (Ref: par. .A11)

[Paragraphs .18–.19 are unchanged.]

Engagement Selection

.20 To obtain reasonable assurance that the firm is complying with its ***system of*** quality ~~control~~ ***management*** ~~policies and procedures~~ and applicable professional standards, the reviewer should review a reasonable cross section of the firm's accounting and auditing engagements, with greater emphasis on those portions of the practice with higher combined assessed levels of inherent and control risk. (Ref: par. .A14–.A15 and .A17)

[Paragraphs .21–.22 are unchanged.]

.23 If a reviewer significantly reduces the scope of ***engagement testing*** procedures to be performed due to reliance on the firm's monitoring ***and remediation*** procedures, the reviewer should inform the AE and AICPA staff during review planning and document the reviewer's procedures in the Summary Review Memorandum. (Ref: par. .A18–.A19)

[Paragraphs .24–.28 are unchanged.]

Scope Limitations

.29 It is presumed that all engagements and ***components***~~elements~~ of the firm's system of quality ~~control~~ ***management*** are subject to the peer review. In the rare situations in which there are exclusions or other limitations on the scope of the peer review, the reviewer should contact the AE and do the following:

a. Assess the reasonableness of the reasons for exclusions**.**

b. Assess the effect on peer review risk assessments and scope**.**

c. Consider whether alternate procedures can be performed**.**

d. Determine the effect on the peer review and on the ability of the team captain to issue a peer review report**.**

[Paragraph .30 is unchanged.]

Procedures Performed in Response to Assessment of Peer Review Risk

.31 To test the firm's compliance with its system of quality ~~control~~ ***management*** and applicable professional standards, the reviewer should do the following:

a. Review and evaluate the highest-risk areas on selected engagements, including accounting and auditing documentation, and reports. (Ref: par. .A26)

b. Interview firm personnel at various levels to assess their understanding of, and compliance with, the firm's system of quality ~~control~~ ***management***.

c. Review evidence to determine whether the firm has complied with its policies and procedures for each ~~element~~***component*** of its system of quality ~~control~~ ***management***, which may include evidence since the previous peer review. (Ref: par. .A27)

d. Review other evidence as appropriate. (Ref: par. .A28 and .A29)

[Paragraphs .32–.39 are unchanged.]

.40 Team captains or AEs should not require firms to perform omitted procedures, reissue accounting or auditing reports, or have previously issued financial statements revised and reissued because those are decisions for the firm and its client to make. The team captain should provide information about risks in the firm's system of quality ~~control~~ ***management*** (as identified through the review and testing of ~~quality control policies and procedures~~***the system***).

[Paragraph .41 is unchanged.]

Expansion of Scope

.42 If the reviewer concludes that one or more engagements are nonconforming or there is a matter in one or more ~~elements~~ ***components*** of the firm's system of quality ~~control~~ ***management***, the reviewer should document the consideration of whether the application of additional peer review procedures — an expansion of scope — is necessary. (Ref: par. .A35–.A36)

Identifying, Aggregating, and Evaluating Matters, Findings, Deficiencies, and Significant Deficiencies

Identifying Matters, Findings, Deficiencies, and Significant Deficiencies

.43 The reviewer should document a matter on an MFC form when the reviewer identifies one or more "no" answers to questions on peer review checklists that the reviewer concludes warrant further consideration in the evaluation of a firm's system of quality ~~control~~ ***management***. Matters of a similar nature or systemic cause should be documented on one MFC form.

.44 The reviewer should determine the relative importance of matters noted during the peer review, individually and in the aggregate. To determine if a matter should be elevated to a finding, deficiency, or significant deficiency, the reviewer should consider the matter's relative importance to the firm's system of quality ~~control~~ ***management***, taking into consideration the nature, systemic cause, pattern, or pervasiveness of it. (Ref: par. .A37–.A38)

Determination of the Systemic Cause

[Paragraph .45 is unchanged.]

.46 If the firm underwent regulatory or governmental oversight or inspection, and similar issues were raised in both the regulatory or governmental oversight and in the peer review, the reviewer should further understand the systemic causes identified by the reviewed firm and consider whether there may be a systemic issue related to the design***, implementation, or operating effectiveness*** of ~~or compliance with~~ the system of quality ~~control~~ ***management***.

[Paragraph .47 is unchanged.]

Isolated Matters

.48 If a matter is identified as isolated, the reviewer should follow the guidance in the sections "Expansion of Scope" and "Determination of the Systemic Cause." The reviewer should evaluate the pervasiveness of the issue, including expanding the scope if necessary, to provide evidence that the noncompliance with the firm's system of quality ~~control~~ ***management*** was truly isolated. Reviewers should focus on the systemic cause of the matter when analyzing whether it is isolated. (Ref: par. .A43–.A44)

[Paragraph .49 is unchanged.]

Aggregating and Evaluating Matters

.50 To conclude on the results of a peer review, the reviewer should aggregate the matters documented during the peer review and determine whether the matters were the result of ***improper***~~the~~ design ~~of the reviewed firm's system of quality control~~ or ~~the~~ failure of ~~its~~ personnel to comply with the firm's ***system of*** quality ~~control~~ ***management*** ~~policies and procedures~~.

.51 To determine the relative importance of matters, both individually and in the aggregate, to the firm's system of quality ~~control~~ ***management***, the reviewer should consider each matter's

a. nature (characteristics),

b. systemic cause (what went wrong with the firm's system of quality ~~control~~ ***management***),

c. pattern (repeated), and

d. pervasiveness (whether it is found throughout the firm's system of quality ~~control~~ ***management***).

When the firm has responded to matters, the team captain should consider if the response is appropriate and if the response indicates additional impacts to the peer review conclusions. Additionally, the reviewer should evaluate each matter in the context of the firm's size, organizational structure, and the nature of its practice. The relative importance of peer review matters to the firm's system of quality ~~control~~ ***management*** will determine the impact to the peer

review conclusions. In rare circumstances in which it is not practicable to identify the systemic cause, the team captain should document the reason or reasons as part of the Summary Review Memorandum and on the related MFC form. (Ref: par. .A46–.A50)

.52 The reviewer should consider the interrelationships among the ***components*** ~~elements~~ of quality ~~control~~ ***management*** and weigh the matters against compensating ***responses to quality risks (for example,*** policies and procedures***)*** to determine the impact to the peer review conclusions.

.53 The reviewer should document a finding on an FFC form when the reviewer concludes that one or more related matters result from a condition in the reviewed firm's system of quality ~~control~~ ***management*** or compliance with it such that there is more than a remote possibility that the reviewed firm would not perform or report in conformity with the requirements of applicable professional standards. Documentation of a finding should include the following:

a. A description of the finding

b. Reference to the applicable requirements of the Statements on Quality ~~Control~~***Management*** Standards

c. The scenario that led to the finding

d. Reference to nonconforming engagements as a result of the finding, if applicable

.54 The team captain should document a deficiency in the report when the reviewer has concluded the firm would not have reasonable assurance of performing or reporting in conformity with the requirements of applicable professional standards in one or more important respects due to the relative importance of the matter to the reviewed firm's system of quality ~~control~~ ***management*** or compliance with it, taking into consideration the nature, systemic causes, pattern, or pervasiveness of the matter.

.55 The team captain should document a significant deficiency in the report when the captain has concluded the reviewed firm's system of quality ~~control~~ ***management*** does not provide the reviewed firm with reasonable assurance of performing or reporting in conformity with applicable professional standards in all material respects due to the relative importance of the matter to the reviewed firm's system of quality ~~control~~ ***management*** or compliance with it, taking into consideration the nature, systemic causes, pattern, or pervasiveness of the matter.

[Paragraph .56 is unchanged.]

Repeat Findings, Deficiencies, and Significant Deficiencies

.57 When the same systemic cause identified in the prior review is also identified in the current review, the reviewer should determine if a repeat finding, deficiency, or significant deficiency exists. To make this determination, the reviewer should review the results of the reviewer's planning procedures to determine if the firm implemented the planned actions documented in the prior review's FFC forms or letter of response, as applicable. If the actions were implemented, the reviewer should

a. consider whether the actions taken were appropriate to remediate the weakness in the firm's system of quality ~~control~~ ***management***, and

b. reconsider whether the same weakness from the prior review is causing the current finding, deficiency, or significant deficiency.

.58 If a repeat finding, deficiency, or significant deficiency is identified, it should be documented as such in the FFC form or report, as applicable. (Ref: par. .A***29***~~27~~ of section 100)

Communication Requirements for Closing Meeting and Exit Conference

Closing Meeting Communication Requirements

[Paragraphs .59–.61 are unchanged.]

Exit Conference Communication Requirements

.62 The team captain should review and evaluate the responses on the FFC forms and letter of response prior to the exit conference. The team captain should consider the following: (Ref: par. .A56–.A57)

a. The firm's response should include

i. the firm's actions taken or planned to remediate the findings or deficiencies in the firm's system of quality ~~control~~ ***management*** and nonconforming engagements, if applicable,

ii. timing of the remediation, and

iii. additional procedures to ensure the finding or deficiency is not repeated in the future.

b. The action should be feasible, genuine, and comprehensive.

c. If the firm has taken action, the reviewer should review documentation of actions taken and consider whether the action is appropriate. (Ref: par. .A58)

[Paragraph .63 is unchanged.]

Written Representations

.64 The team 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. .A59)

a. Management has fulfilled its responsibility for the design***, implementation, and operating effectiveness*** of ~~and compliance with~~ a system of quality ~~control~~ ***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.

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 team 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 the firm practices for the year under review. If there are known instances of noncompliance, management should summarize the instances and, if applicable, describe the remediation of the noncompliance.

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 [*MFC form, FFC form, or letter of response*], if applicable.

f. Management understands the intended uses and limitations of the quality ~~control~~ ***management*** materials it has developed or adopted. Management has tailored and augmented the materials as appropriate such that the quality ~~control~~ ***management*** materials encompass guidance that is sufficient to assist it in conforming with professional standards (including the Statements on Quality ~~Control~~***Management*** Standards) applicable to its accounting and auditing practice.

g. Management has responded fully and truthfully to the team captain's inquiries.

h. Management has provided the team captain with all relevant information, which included

i. all engagements with periods ending during (or, for financial forecasts or projections and agreed-upon procedures engagements, report dates in) the year under review and

ii. all must-select engagements, as applicable.

i. Management has disclosed to the team captain if the firm performed must-select engagements for the period covered by the peer review, and, if so, at least one of each type of must-select engagement that was performed was selected and reviewed by the peer reviewer.

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 the team 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, audit, 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 either 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 .65–.66 are unchanged.]

Reporting on System Reviews

.67 To determine the report rating, the team captain should use professional judgment and consider the understanding of the firm's system of quality ~~control~~ ***management*** and the nature, systemic causes, pattern, and pervasiveness of matters and their relative importance to the firm's system of quality ~~control~~ ***management*** taken as a whole, including limitations on the scope of the review. (Ref: par. .A61–.A64)

.68 The written report in a system review should (Ref: par. .A65)

a. be dated as of the exit conference date.

b. be issued on letterhead of the firm performing the review.[11]

c. state at the top of the report the title "Report on the Firm's System of Quality ~~Control~~***Management***."

d. include headings for each of the following sections:

i. Firm's Responsibility

ii. Peer Reviewer's Responsibility

iii. Required Selections and Considerations

iv. Deficiency(ies) or Significant Deficiency(ies) Identified in the Firm's System of Quality ~~Control~~***Management*** (if applicable)

[11] A report by a reviewer formed by an association of CPA firms should be issued on the letterhead of the firm of the team captain performing the review.

v. Scope Limitation (if applicable)

vi. Opinion

e. state that the system of quality ~~control~~ ***management*** for the accounting and auditing practice of the firm was reviewed and include the year-end covered by the peer review.

f. state that the peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews (the standards) established by the Peer Review Board of the AICPA.

g. state that a summary of the nature, objectives, scope, limitations of, and procedures performed in a system review, as described in the standards, can be found on the AICPA website where the standards are summarized.

h. include a URL reference to the AICPA website where the standards are located, and state that the summary includes an explanation of how engagements identified as not performed or reported on in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.

i. state that the firm is responsible for designing***, implementing, and operating*** ~~and complying with~~ a system of quality ~~control~~ ***management*** to provide the firm with reasonable assurance of performing and reporting in conformity with the requirements of applicable professional standards in all material respects and for evaluating actions to promptly remediate engagements deemed as not performed or reported on in conformity with the requirements of applicable professional standards, where appropriate, and for remediating weaknesses in its system of quality ~~control~~ ***management***, if any.

j. state that the reviewer's responsibility is to express an opinion on the design***, implementation, and operating effectiveness*** of ~~and compliance with~~ the firm's system of quality ~~control~~ ***management*** based on the review.

k. identify engagements that are required to be selected and indicate whether single or multiple engagements (for example, an audit versus audits) were reviewed, when applicable.

l. state that reviews by regulatory entities, as communicated by the firm, if applicable, were considered in determining the nature and extent of procedures.

m. in the event of a scope limitation, include an additional paragraph before the opinion paragraph that describes the relationship of the excluded engagements or ~~element~~***component***s of the firm's system of quality ~~control~~ ***management*** to the firm's practice as a whole, the highest level of service and industry concentration, if any, of the engagements excluded from potential selection, and the effect of the exclusion on the scope and results of the peer review. The reviewer should tailor the opinion, as appropriate, to address the scope limitation.

n. identify the different peer review ratings that the firm could receive.

o. in a report with a peer review rating of *pass*,

i. express an opinion that the system of quality ~~control~~ ***management*** for the accounting and auditing practice of the reviewed firm in effect for the year ended has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.

ii. state that the firm has received a peer review rating of *pass*.

p. in a report with a peer review rating of *pass with deficiencies*, (Ref: par. .A66)

i. express an opinion that, except for the deficiencies previously described, the system of quality ~~control~~ ***management*** for the accounting and auditing practice of the reviewed firm in effect for the year ended has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.

ii. state that the firm has received a peer review rating of *pass with deficiencies*.

q. in a report with a peer review rating of *fail*,

i. express an opinion that, as a result of the significant deficiencies previously described, the system of quality ~~control~~ ***management*** for the accounting and auditing practice of the reviewed firm in effect for the year ended was not suitably designed or complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.

ii. state the firm has received a peer review rating of *fail*.

r. in a report with a peer review rating of *pass with deficiencies* or *fail*,

i. have numbered deficiencies or significant deficiencies that include

(1) a description,

(2) reference to the applicable requirements of the Statements on Quality ~~Control~~***Management*** Standards,

(3) the scenario that led to the deficiency or significant deficiency, and

(4) reference to nonconforming engagements as a result of the deficiency or significant deficiency, if applicable.

ii. if there are repeat deficiencies or significant deficiencies, state that the deficiency or significant deficiency was noted in the firm's previous peer review. This should be determined based on the systemic cause of the deficiencies or significant deficiencies. (Ref: par. .A67)

iii. identify the level of service for any deficiencies or significant deficiencies.

iv. identify the applicable industry if a deficiency or significant deficiency is industry specific.

v. identify any must-select engagement types in which nonconforming engagements were noted as a result of a deficiency or significant deficiency.

[Paragraph .69 is unchanged.]

Submission of Peer Review Documentation to the AE by the Team Captain

.70 Within 30 days of the exit conference date or by the firm's peer review due date, whichever date is earlier, the team captain should complete electronically and submit to the AE, as applicable, the following documents: (Ref: par. .A68)

a. Report and letter of response, if applicable

b. Summary Review Memorandum

c. FFC forms, if applicable

d. MFC forms, if applicable

e. DMFC, if applicable

f. Firm's representation letter

g. Engagement profiles and supplemental checklists for reviews of engagements subject to the Single Audit Act and the Uniform Guidance, if applicable

h. ***Quality management checklists and an e***~~E~~Explanation of ***any*** "no" answers ~~for quality control checklists~~

i. ***Supplemental checklists for reviews of non-CPA-owned entities that are closely aligned with a CPA firm (alternative practice structures)***

.71 For all reviews administered by the National Peer Review Committee, the team captain should submit the following documents, as applicable: (Ref: par. .A68)

a. All documents required by paragraph .70 to be submitted for system reviews

b. Engagement questionnaires or checklists

c. Quality ~~control~~ ***management*** documents and related practice aids

d. Staff and focus group interview forms

e. Planning documents

f. Any other documents considered relevant by the team captain

Application and Other Explanatory Material

[Paragraphs .A1–.A3 are unchanged.]

Planning (Ref: par. .09–.10)

[Paragraph .A4 is unchanged.]

.A5 Quality ~~control~~ ***management*** documentation ~~will likely~~ include***s established quality objectives, identification and assessment of risks to the achievement of the quality objectives, the design and implementation of responses to address the quality risks, and firm management's (at least annual) evaluation of its system of quality management. T***~~t~~he firm's ~~quality control~~ document***ation provides***~~,~~ evidence of the performance of the firm's monitoring ***and remediation*** procedures, ~~and~~ CPE documentation, ~~among~~ ***and other support for*** other ***components of the firm's system of quality management***~~documents~~.

Understanding the Firm's Accounting and Auditing Practice and System of Quality ~~*Control*~~***Management*** *(Ref: par. .11–.14)*

.A6 Examples of ~~elements~~***aspects*** that could reside outside of the firm include, but are not limited to, membership in associations, joint ventures, non-CPA-owned entities, alternative practice structures, arrangements with outside consultants, third-party quality ~~control~~ ***management*** materials, or CPE.

Understanding and Assessing Peer Review Risk (Ref: par. .15–.19)

.A7 Circumstances within the firm may include the following:

a. The relationship of the firm's audit hours to total accounting and auditing hours

b. The size of the firm's major engagements relative to the firm's practice as a whole

c. Initial engagements and their impact on the firm's practice

d. The industries in which the firm's clients operate, especially the firm's industry concentrations

e. ***The results of firm management conducting its (at least annual) evaluation of the firm's system of quality management and any resulting actions taken by the firm***

f. The results of the prior peer review

g. The actions of the firm in response to the prior report and FFC forms

h. The results of any regulatory or governmental oversight or inspection procedures (Ref: par. .A8)

i. The risk level of the engagements performed (Ref: par. .A9)

j. The extent of nonaudit services

k. Significant changes in the firm's practice

[Paragraph .A8–.A10 are unchanged.]

.A11 Control risk factors may include, but are not limited to, the team captain's evaluation of the ***design of the*** firm's ~~policies and procedures~~ ***system*** related to the following:

a. ***The firm's risk assessment process***~~CPE~~

b. ***Governance and leadership***~~The firm's professional library~~

c. ***Relevant ethical requirements***

d. ~~Engagement a~~***A***cceptance ***and continuance of client relationships and specific engagements***

e. Engagement ***performance***~~review and supervision~~

f. ***Resources***

g. ***Information and communication***

h. ***Monitoring and remediation processes***

~~*i.* Engagement quality control review (EQCR)~~

~~*j.* Monitoring processes~~

~~*k.* Recruitment and hiring~~

~~*l.* Monitoring independence~~

~~*m.* Timely completion of the assembly of final engagement files by engagement teams~~

[Paragraphs .A12–.A13 are unchanged.]

Engagement Selection (Ref: par. .20–.28)

.A14 Risk factors that may influence a reviewer's decision to select engagements include, but are not limited to, the following:

a. Engagement size, in terms of the hours required to plan and perform the engagement

b. Engagements involving experienced personnel hired from other firms and partners who also have office, regional, or firm-wide management, administrative, or functional responsibilities

c. Engagements in which work ~~on segments~~ has been referred to other firms, foreign offices, domestic or foreign affiliates, or correspondents

d. Engagements in which one or more affiliated entities (for example, parent companies and subsidiaries or brother and sister companies) constitute a large portion of the firm's overall clientele

e. Engagements identified in the firm's ***system of*** quality ~~control~~ ***management*** ~~system~~ or guidance material as having a high degree of risk

f. Engagements in which departures from professional standards and failure to comply with the firm's ***system of*** quality ~~control~~ ***management*** ~~policies and procedures~~ were noted in the preceding year's monitoring ***and remediation*** procedures

g. Engagements in industries where the firm has experienced high instances of litigation, proceedings, or investigations

.A15 Risk factors that may influence a reviewer's decision to visit or select engagements from a particular office include, but are not limited to, the following:

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

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

c. The reviewer'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 engagements, such as governmental compliance audits or regulated industries, to the firm and to individual offices

f. Extent of nonaudit services to audit clients

[Paragraphs .A16–.A25 are unchanged.]

Procedures Performed in Response to Assessment of Peer Review Risk (Ref: par. .31–.35)

.A26 Factors to consider in determining the highest-risk audit areas include the following:

a. The highest-risk audit areas in the client's industry (for example, revenue recognition for construction companies; inventory and accounts receivable for manufacturing and retail concerns; policy reserves for insurance companies; or loan loss allowances for financial institutions)

b. The highest-risk audit areas noted during the review of the financial statements and discussions with engagement personnel (for example, review of loan defaults or follow-up of litigation matters)

c. The highest-risk audit areas identified by the firm in planning or conducting the engagement, including those areas identified in the engagement profile

d. Recent accounting and auditing developments and pronouncements

e. Weaknesses noted in other engagements reviewed

f. Weaknesses noted by the firm through its monitoring ***and remediation*** procedures

.A27 If no events relative to a~~n~~ ~~element~~***component*** of a firm's system of quality ~~control~~ ***management*** occurred during the peer review year, it may be necessary for a team captain to review evidence from prior to the peer review year. For example, if there were no instances of accepting new clients in the peer review year, it is appropriate to test compliance in prior years, assuming the design of the ~~policies and procedures~~***system*** is the same. Another example would be when the team captain reviews the monitoring and inspection results from the intervening periods to determine appropriate design and compliance of monitoring procedures. Looking at the intervening periods allows the team captain to evaluate whether the firm is properly communicating and remediating engagement and systemic issues identified.

.A28 Examples of other evidence include, but are not limited to,

a. selected administrative or personnel files,

b. correspondence files documenting consultations on technical or ethical questions,

c. files evidencing compliance with ~~human~~ ***the firm's*** resource requirements, and

d. the firm's technical reference sources.

.A29 A firm may have requirements embedded in its ***system of*** quality ~~control~~ ***management*** ~~policies and procedures~~ that do not directly contribute to the firm's compliance with the quality ~~control~~ ***management*** standards established by the AICPA. For example, voluntary membership requirements that do not directly contribute to the firm's compliance would not be tested, addressed, or reported on in the peer review process.

[Paragraph .A30 is unchanged.]

.A31 A reviewer may verify an out-of-state practice unit license or an out-of-state individual license on an individual engagement basis, when that engagement is selected for review and was

performed by the reviewed firm in another state requiring a firm or individual license. The decision to perform further testing is based on the reviewer's understanding of the firm's quality ~~control~~ ***management*** procedures related to licensing and the related risk of noncompliance.

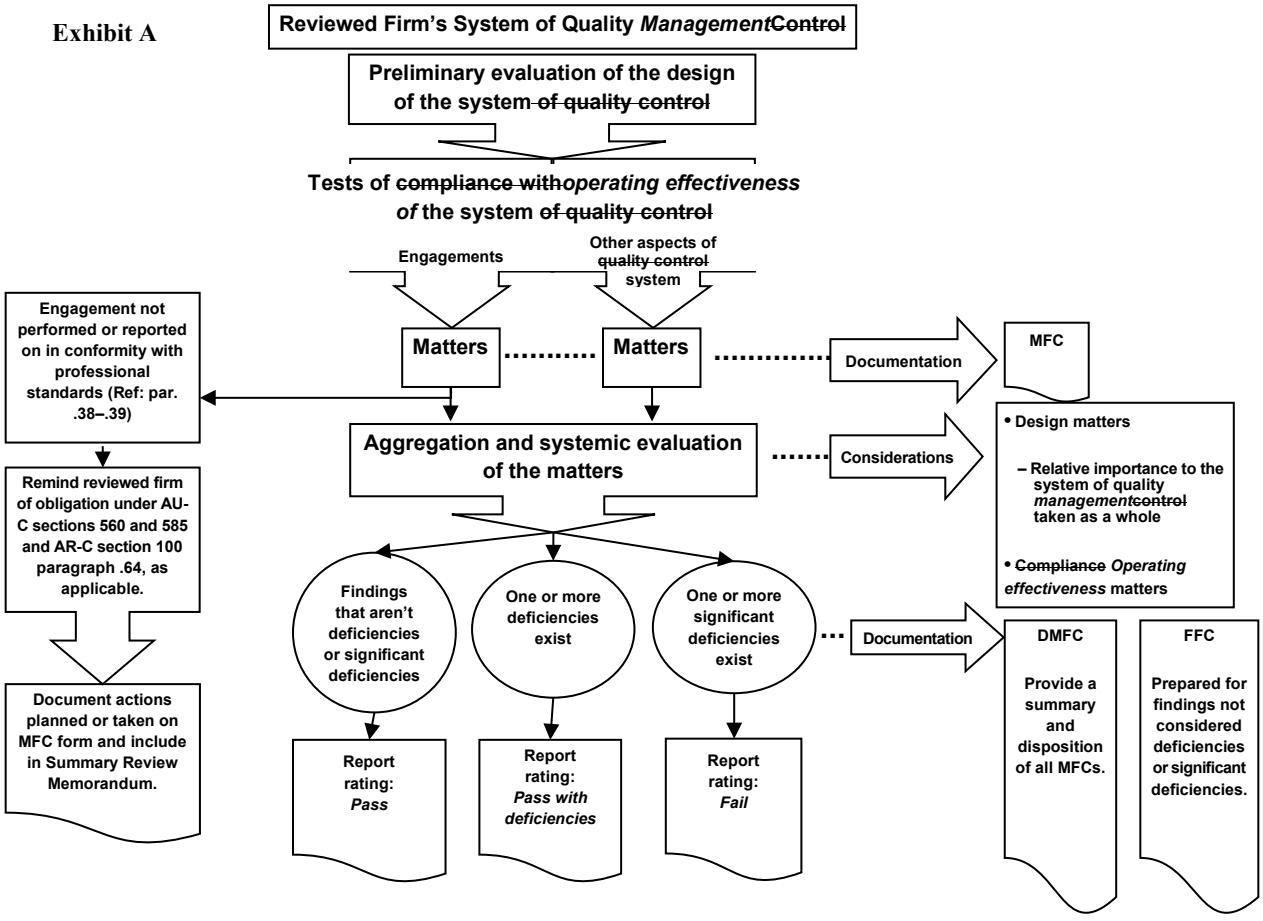
[Paragraphs .A32–.A36 are unchanged.]

Identifying, Aggregating, and Evaluating Matters, Findings, Deficiencies, and Significant Deficiencies

Identifying Matters, Findings, Deficiencies, and Significant Deficiencies (Ref: par. .43–.44)

.A37 Exhibit A shows a broad understanding of the peer review process, from the evaluation of the design of the system of quality ~~control~~ ***management***, to the tests of ***operating effectiveness (formerly, "***compliance***")***, to the determination of a matter, finding, deficiency, or significant deficiency. It also illustrates the aggregation of these items, their documentation, and their potential impact to the report rating.

Exhibit A



[Paragraph .A38 is unchanged.]

Determination of the Systemic Cause (Ref: par. .45–.47)

.A39 Matters may be symptoms of weaknesses in the firm's system of quality ~~control~~ ***management***.

.A40 The "no" answers identified when completing peer review checklists for the review and testing of ***a system of*** quality ~~control~~ ***management*** ~~policies and procedures~~ are a helpful resource for reviewers to assess the systemic cause.

.A41 Separate matters that are exactly the same may result from different weaknesses in the firm's system of quality ~~control~~ ***management***. Likewise, separate matters that are different may result from the same weakness in the firm's system of quality ~~control~~ ***management***.

.A42 The following are some examples of systemic causes that could affect the peer review report rating. The examples cover a broad range of conditions that may not be relevant to every peer review and are not a complete list.

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 an issue 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 may have been detected if the firm's ***system of*** quality ~~control~~ ***management*** ~~policies and procedures~~ had been followed.

d. The failure may have been detected by the application of quality ~~control~~ ***management*** 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 AE before reaching such a conclusion.

Isolated Matters (Ref: par. .48–.49)

.A43 The reviewer's ability to conclude that a matter is isolated may be dependent on the reviewer's ability to expand the scope to engagements or ~~elements~~***components of the firm's system of quality management*** that are classified by common characteristics such as, but not limited to, the industry, level of service, the practitioners in charge, ~~or~~ must-select engagements***, or quality risks***.

[Paragraphs .A44–.A45 are unchanged.]

Aggregating and Evaluating Matters (Ref: par. .50–.56)

.A46 The more direct the relationship between a specific quality ~~control~~ ***management*** policy and procedure and the application of professional standards, the greater the probability that the firm may not perform or report in conformity with applicable professional standards in all material respects when that policy or procedure is not complied with.

.A47 An isolated matter or instance of noncompliance with the firm's system of quality ~~control~~ ***management*** may be elevated to a finding, deficiency, or significant deficiency when evaluated with the review's other matters (in the aggregate). For example, a single disclosure matter and a single documentation matter may be isolated when taken individually, but they may have resulted from the same systemic cause, or an isolated matter may be materially significant in amount or nature, or both.

.A48 There may be circumstances in which the reviewer identifies few findings in the work performed by the firm but may conclude that the firm's system of quality ~~control~~ ***management was not designed, implemented, or operating effectively*** ~~would not be effective if complied with~~. For example, a firm that is growing rapidly and adding personnel and clients may not be giving appropriate attention to ***certain components of its system of quality management*** ~~the policies and procedures necessary in areas~~ such as human***, intellectual, or technology*** resources~~(hiring, assigning personnel to engagements, and advancement)~~ and acceptance and continuance of client ***relationship***s and ***specific*** engagements. A reviewer may conclude that these conditions could create a situation in which the firm would not have reasonable assurance of performing or reporting in conformity with applicable professional standards in one or more important respects and may result in a deficiency or significant deficiency in a report with a peer review rating of *pass with deficiencies* or *fail.*

.A49 Variances in individual performance and professional interpretation may affect the degree of compliance with a firm's system of quality ~~control~~ ***management***. However, the degree of compliance with the firm's ***system of*** quality ~~control~~ ***management*** ~~policies and procedures~~ needs to be adequate to provide the reviewed firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.

.A50 A design or ***operating effectiveness*** ~~compliance~~ matter, by itself, may result in a peer review rating of *pass with deficiencies* or *fail* when one or more conditions are present in the firm's system of quality ~~control~~ ***management*** and the reviewer has concluded that the conditions could create a situation in which the firm would not have reasonable assurance of performing or reporting in conformity with applicable professional standards in one or more respects. Examples include, but are not limited to, the following:

a. Failure to ***design, implement, or operate a system of*** ~~establish or comply with~~ quality ~~control~~ ***management that includes*** policies and procedures designed to provide the firm with reasonable assurance that the ***firm and its personnel conduct engagements in accordance with professional and legal standards and that engagement reports issued by the firm are appropriate in the circumstances*** ~~internal culture is based on recognition that quality is essential in performing engagements~~. This may be evidenced by the ***absence of a risk assessment process, the*** lack of ~~a~~ quality ~~control~~ ***management*** document***ation***, failure to appropriately respond to findings in a regulatory investigation ***or from internal monitoring***, or failure to have a timely peer review.

b. Failure to comply with relevant ethical requirements. This may be evidenced by failure to obtain independence confirmations from all personnel, failure to inform personnel on a timely basis of changes to the list of clients and related entities, or failure to address potential breaches of independence.

c. Failure of the firm to undertake or continue relationships and engagements only when the firm is competent to perform the engagements. This may be evidenced by failure to have policies and procedures in place to require evaluation of the nature of the services to be provided, evaluation of the firm's resources to provide the services, or evaluation of the need to engage a third party to assist in new industries.

d. Failure of the firm to have personnel with the competence, capabilities, and commitment to ethical principles necessary to perform engagements in accordance with professional standards. This may be evidenced by failure to have policies and procedures requiring personnel to maintain a CPA license, comply with industry-specific CPE requirements, or ensure appropriate industry experience on engagement teams.

e. Failure of the firm to comply with ***the*** monitoring ***and remediation component*** of the firm's system of quality ~~control~~ ***management***. This may be identified by lack of monitoring of appropriate CPE for all firm personnel, lack of monitoring of all ~~elements~~ ***components*** of the firm's system of quality ~~control~~ ***management*** in the firm's peer review year, or failing to appropriately respond to issues identified during engagement inspection.

Communication Requirements for Closing Meeting and Exit Conference

[Paragraphs .A51–.A60 are unchanged.]

Reporting on System Reviews (Ref: par. .67–.69)

.A61 A report with a peer review rating of *pass* is issued when the team captain concludes that the firm's system of quality ~~control~~ ***management*** for the accounting and auditing practice has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.

.A62 A report with a peer review rating of *pass with deficiencies* is issued when the team captain concludes that the firm's system of quality ~~control~~ ***management*** for the accounting and auditing practice has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects with the exception of a certain deficiency or deficiencies that are described in the report.

.A63 A report with a peer review rating of *fail* is issued when the team captain has identified significant deficiencies and concludes that the firm's system of quality ~~control~~ ***management*** is not suitably designed to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects or the firm has not complied with its system of quality ~~control~~ ***management*** to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects.

[Paragraph .A64 is unchanged.]

.A65 Exhibit B, "Illustrative Examples of the Reviewer's Report on the Firm's System of Quality ~~Control~~***Management***," contains example reports that may be tailored by the reviewer to meet the requirements described in paragraph .69.

[Paragraphs .A66–.A67 are unchanged.]

Submission of Peer Review Documentation to the AE by the Team Captain (Ref: par. .70–.71)

[Paragraph .A68 is unchanged.]

Appendix A — Consideration of the Results of Regulatory Oversight or Inspections in the Planning and Performance of a Peer Review (Ref: par. .A9)

.A69

.01 This appendix contains information related to team captain considerations when a reviewed firm has undergone oversight or inspection by regulatory or governmental bodies.

Oversight or Inspections by Regulatory or Governmental Entities

.02 Oversight or inspections by regulatory or governmental entities (for instance, the Department of Labor, the Department of Health and Human Services, or other local, state, or federal entities) performed on a firm are certainly relevant when assessing peer review risk. The goals of regulatory or governmental oversight, however, may differ from the purpose of a system review. Therefore, although it would be inappropriate for a team captain to place reliance on regulatory or governmental oversight results, it is appropriate for a team captain to consider the following factors when determining the impact of regulatory or governmental oversight and communications from regulatory or governmental bodies on peer review risk:

a. The impact of regulatory or governmental oversight on the scope of the peer review. Both the inherent risk and control risk associated with a peer review may be affected if the engagements subject to regulatory or governmental oversight are also within the scope of engagements that can be selected for peer review. For example, the nature, systemic cause, pattern, or pervasiveness of issues identified by oversight may affect the assessed inherent risk as it relates to the firm's demonstrated expertise in performing the relevant engagements and the assessed control risk as it relates to how the system of quality ~~control~~ ***management*** is designed to prevent issues in the relevant engagements and the effectiveness of those controls.

Although more substantive comments are more likely to affect the peer review engagement selections, a lack of comments from oversight or inspection does not necessarily indicate that the firm's system of quality ~~control~~ ***management*** is operating effectively for the relevant industry practice. Ultimately, the impact to the peer review risk assessment (and thus the nature, timing, and extent of testing performed) will be based on the evaluation of the significance of the comments related to the firm's accounting and auditing practice performed by the team captain.

Finally, understanding the systemic causes of and firm responses to any deficiencies or indications of engagements that were not performed or reported on in conformity with applicable professional standards in all material respects identified by the oversight body is vital when determining the impact of oversight or inspection on the peer review risk assessment and engagement selection. Understanding these systemic causes and firm responses might also help the team captain identify the systemic causes of any similar matters that are identified as a result of the review team's review of engagements during the peer review.

b. The timing of the regulatory or governmental oversight results. The time period covered by the regulatory oversight results is also relevant in determining the usefulness of the information when assessing peer review risk and determining the impact (if any) on the nature, timing, and extent of peer review procedures. For example, the oversight results from more recently completed oversight are likely to be more relevant than the results from older oversight. Any open or ongoing oversight, the status of that oversight, and the firm's preliminary remediation plans (if applicable) would also be relevant for a team captain's risk assessment.

c. The firm's responsiveness to regulatory or governmental oversight results. The degree of the firm's responsiveness to oversight findings and other communications, as evidenced by the remediation planned or taken, is also an important aspect of the team captain's risk assessment. Remediation efforts by the firm may affect industries that are subject to peer review and may assist the team captain when considering the design***, implementation, or operating effectiveness*** of the firm's system of quality ~~control~~ ***management*** ~~or compliance with it~~.

d. The size of the firm relative to its specialized industry practices. The relative significance of the specialized industry practices subject to regulatory oversight as compared to the firm's total practice is an important factor when determining the relevance of the oversight results to the peer review, as this may affect the reviewer's evaluation of the firm's design***, implementation, and operating effectiveness*** of ~~and compliance with~~ its system of quality ~~control~~ ***management***.

Inspections by the PCAOB

.03 Although PCAOB inspection reports cover only the portion of a firm's practice that is subject to permanent inspection, most firms typically have only one system of quality ~~control~~ ***management***. As a result, the PCAOB inspection report may contain information that could assist the reviewer in assessing peer review risk. The firm will have valuable insight on both the public and nonpublic portions (if made available) of either the most recently released PCAOB inspection reports or any ongoing PCAOB inspection. These insights will assist the team captain in identifying risks with the firm's system of quality ~~control~~ ***management***.

.04 Similarly to other oversight or inspections, the nature, relative importance, systemic cause, pattern, or pervasiveness of the findings contained in PCAOB inspection reports may affect the nature, timing, and extent of peer review procedures. By performing the following steps, a team captain can properly identify risks associated with the firm's system of quality ~~control~~ ***management***:

a. Consider the information contained in public portions of recent PCAOB inspection reports.

b. Consider the information in the nonpublic portions of the PCAOB inspection reports, if made available by the firm.

c. Consider the information made available by the firm related to any ongoing PCAOB inspections.

d. Perform further inquiry of the firm to determine the offices, and partners, related to findings detailed in the PCAOB report.

e. Determine which PCAOB findings (if any) may be applicable to the portion of the firm's practice that was not subject to PCAOB inspection.

f. Understand the systemic causes of the findings (as determined by the firm).

g. Understand how the firm remediated the findings for the most current inspection (or the firm's remediation plan).

h. Consider the firm's remediation history with respect to PCAOB inspection findings (if any).

.05 As a reminder, discussing PCAOB inspection findings does not permit the peer reviewer to request the nonpublic portions of the PCAOB inspection report.

Appendix B — Considering the Firm's Monitoring *and Remediation* Procedures to Reduce a Reviewer's Testing *of Engagements*~~Procedures~~ (Ref: par. .23)

.A70

.01 This appendix contains information on the team captain's considerations of the firm's monitoring ***and remediation*** procedures when the team captain plans to reduce scope ***of testing engagements*** based on those procedures. If a firm and team captain work collaboratively and with an integrated approach, regardless of the size of the firm, the team captain could maximize the benefits of taking into account a firm's current-year internal inspection and other relevant factors (for example, regulatory oversight from the PCAOB or other regulatory or governmental entities, such as the Department of Labor [DOL], the Department of Health and Human Services [HHS], or local regulatory agencies) in determining inherent and control risk. However, given that the peer review covers a defined year, internal inspection procedures and results for a year outside the peer review year are not likely to be relevant.

.02 In making a judgment about the effects that the firm's current-year internal inspection procedures will have on the selection of offices and engagements to be reviewed, the team captain will likely need to consider the following:

a. The firm's cooperation and willingness to share all relevant information

b. Whether the firm's internal inspection procedures are robust

c. Whether the firm's internal inspection includes all clients, even those not subject to the AICPA's peer review standards

d. The potential biases of the firm's internal inspectors and the impact of those biases on the internal inspection results

.03 The team captain will also likely need to consider the extent of the review team's involvement in the internal inspection process, including the following:

a. Level of involvement in internal inspection planning, such as inclusion in discussions or meetings, and the team captain's approval of internal inspectors' qualifications, the internal inspection's risk assessment, scopes, risk-based approach, and office or engagement selections.

b. Coordination of peer review planning with internal inspection planning.

c. The team captain's in-depth understanding of the firm's internal inspection process, including an assessment of its design and effectiveness.

d. The level of contemporaneous testing of the firm's internal inspection procedures (commonly called "piggyback reviews" or "piggyback testing"). The less piggyback testing a review team performs, the more direct testing the review team would need to perform, and vice versa. In order to be effective, procedures for piggyback testing would need to be similar to those for direct testing. For example, engagement piggyback testing procedures could include a review of financial statements, working papers, and the engagement checklist being used by the internal inspector, as well as participation by the review team in discussions, meetings, or both between the internal inspector and the engagement partner or manager and related follow-up procedures. Although testing of internal inspection procedures can be performed after the internal inspection procedures are completed, this type of testing will not provide the peer reviewer with the same level of understanding and insight into the internal inspection process as piggyback testing would. In addition to piggyback testing, a reviewer may perform supplant reviews, for which the reviewer becomes a member of the internal inspection team and participates in one or more reviews of engagements. Supplant reviews enable a reviewer to evaluate the internal inspection team's process and decision-making, and as with piggyback reviews, there is a correlation between the level of the reviewer's involvement in the internal inspection and direct testing.

e. Assessment of how the internal inspectors resolve open matters and deal with potential issues detected in their reviews.

f. The scopes and selections of the internal inspectors and the use of peer review to balance out the coverage.

g. The correlation between the findings of the reviewer and internal inspection, evaluated with regard to the peer review's scope.

.04 The results of these considerations assist the team captain in determining the appropriate amount of procedures to be performed by the review team. A team captain may be able to significantly reduce the scope of the procedures the review team directly performs. For example, a significant reduction would be permitted when the extent of the peer reviewer's involvement with the firm's internal inspection is so timely and significant that the peer review and internal inspection can be viewed as an integrated activity. In this example, the collaboration would result in a reallocation of effort and resources between the review team and the firm in such a way that the overall scope and the effort involved are not diminished and, if anything, are enhanced. The

resulting peer review would remain as rigorous as a peer review in which there is no consideration of internal inspections or other inputs.

.05 Ultimately, if the reviewer plans to consider the current-year internal inspection procedures to reduce the scope of the peer review, the team captain would need to determine that the firm's internal inspection procedures

a. were applied properly in the reviews of individual practice offices and engagements.

b. were carried out conscientiously by competent persons with appropriate expertise and objectivity.

c. produced findings that are representative of the work performed by the firm and therefore can be considered by the review team to reach an overall conclusion regarding the firm's compliance with its quality ~~control~~ ***management*** policies and procedures.

.06 As stated when discussing piggyback testing, testing performed by the review team in order to reach these conclusions can be performed contemporaneously or after internal inspection procedures have been completed.

.07 Examples of procedures a review team would perform when testing the effectiveness of the internal inspection procedures contemporaneously with the performance by the internal inspection team performing the procedures include the following:

a. Re-performing the review of a sample of engagements subjected to internal inspection procedures

b. Re-performing the review of a sample of the quality ~~control~~ ***management*** policies and procedures (~~functional elements~~***components***) subjected to internal inspection procedures in the offices

c. Comparing the review team's findings to the internal inspection team's findings and resolving any differences

d. Attending discussions of engagement findings and the overall office findings, if applicable

.08 Examples of procedures a review team would perform when testing the effectiveness of the internal inspection procedures after the procedures have been completed include the following:

a. Re-performing the review of a sample of engagements

b. Re-performing the review of a sample of the quality ~~control~~ ***management*** policies and procedures (***components***~~functional elements~~) subjected to internal inspection procedures in the offices

c. Comparing the review team's findings to the internal inspection team's findings and resolving any differences

Practical Examples Related to Relying on a Firm's Internal Inspection Procedures

.09 The following are example scenarios a team captain could encounter when considering whether or not to rely on a firm's internal inspection procedures. Of course, these examples cannot address all the different factors a team captain could consider, and thus, the team captain will need to use judgment in determining whether and to what extent the reviewer could reduce or modify scope.

Example 1: A firm has 800 employees, 10 offices, and a strong centralized quality ~~control~~ ***management*** department; operates by industry segment; and has pre-issuance reviews and annual internal inspections. It is registered with the PCAOB, undergoes annual PCAOB inspection, and has one system of quality ~~control~~ ***management*** for both SEC and non-SEC engagements. Based on various factors, the peer reviewers have assessed inherent and control risk as low. Prior peer reviews have been *pass* reports. Internal inspection appears robust, and beginning last year, the firm lowered the bar for "no" responses on checklists used for internal inspections. The peer reviewers were integrally involved in the internal inspection, approved the planning, and attended several office exit conferences. In addition, they performed piggybacks on 5 percent of the firm's internal inspection procedures, and those procedures confirmed other internal inspection results. The ***firm considered the results of the*** PCAOB***'s most recent inspection*** ~~was involved~~ in the current year's internal inspection planning, and results of the prior year's PCAOB inspection mirrored prior internal inspection results. Results from a DOL audit that covered the peer review year raised an issue that was also highlighted during the current year's internal inspection. *The peer reviewers could consider maximum reliance on the internal inspection process and thus consider a reduction in scope or procedures.*

Example 2: A firm has 300 employees and 5 offices. The firm has undergone several mergers in the past two years. Engagements undergo pre-issuance review, and each office performs its own internal inspection that is then sent to the main office. The firm engaged new peer reviewers and asked them to implement the guidance contained in this document with the intent of reducing scope and procedures and thus costs. The peer reviewers participated in planning meetings and performed a number of piggybacks. However, the peer reviewers disagree with some of the judgments made by the internal inspectors and believe that the results from the offices are not being consolidated adequately. They are concerned that the integration of the firms has not been successful. The firm is registered with the PCAOB and underwent an inspection in the past year. However, the report is not yet public, and the firm is unable or unwilling to communicate the results or its experiences with the peer reviewers. *The peer reviewer would not be able to place significant reliance on internal inspection to reduce scope or procedures in this example.*

Example 3: A firm has 60 employees and 2 offices. It performs pre-issuance reviews and annual internal inspections. The peer reviewers have assessed inherent and control risk as moderate. Prior peer reviews have been *pass* reports with a few findings for further consideration. The firm has a very experienced and highly regarded quality ~~control~~ ***management*** director who is assisted by several of the firm's more technical partners each year in performing the internal inspection. They approach the internal inspection seriously. The peer reviewers were integrally involved in the internal inspection, approved the planning, and attended several office exit conferences. In addition, they performed piggybacks on 7 percent of the firm's internal inspection procedures, and those procedures confirmed other internal inspection results, even though they revealed several issues that might lead to findings. The firm is registered with the PCAOB and underwent an

inspection in the prior year. The quality ~~control~~ ***management*** director shared the PCAOB's matter sheets with the peer reviewers. The PCAOB had noted that staff was not adequately documenting considerations related to fraud on the SEC engagements. The internal inspectors paid particular attention to this matter and agreed that it was a problem for one of the offices. *The peer reviewers could consider moderate reliance on the internal inspection process and, thus, some reduction in scope or procedures.*

Example 4: A firm has 20 employees and 1 office. It has no SEC engagements and is not registered with the PCAOB. Its last peer review was *pass* with no findings. The firm performs pre-issuance reviews and annual internal inspections. The partner that performs the internal inspection is also the pre-issuance reviewer or engagement partner on many of the firm's audit engagements. The firm's annual internal inspection is performed in the spring, but, due to scheduling conflicts, its peer reviewers, who come from out of state, are only available in the fall. The two peer reviewers typically review four audits and four reviews or compilations, within a two- or three-day time frame. *Cost-benefit and other considerations would most likely lead the firm and the peer reviewers to conclude that there should be no reliance on the internal inspection to reduce scope or procedures.*

Appendix C — Additional Requirements for Must-Select and Must-Cover Engagements (Ref: par. .27)

.A71

[The content of appendix C is unchanged.]

Exhibit B — Illustrative Examples of the Reviewer's Report on the Firm's System of Quality ~~Control~~*Management*

.A72 This exhibit contains various illustrations of a peer reviewer's report on a firm's system of quality ~~control~~ ***management*** (system reviews).

Illustration 1 — A Reviewer's Report on the Firm's System of Quality ~~Control~~*Management* With a Peer Review Rating of Pass

Illustration 2 — A Reviewer's Report on the Firm's System of Quality ~~Control~~*Management* With a Peer Review Rating of Pass With a Scope Limitation

Illustration 3 — A Reviewer's Report on the Firm's System of Quality ~~Control~~*Management* With a Peer Review Rating of Pass With Deficiencies

Illustration 4 — A Reviewer's Report on the Firm's System of Quality ~~Control~~*Management* With a Peer Review Rating of Pass With Deficiencies With a Scope Limitation

Illustration 5 — A Reviewer's Report on the Firm's System of Quality ~~Control~~*Management* With a Peer Review Rating of Fail

Illustration 6 — A Reviewer's Report on the Firm's System of Quality ~~Control~~*Management* With a Peer Review Rating of Fail With a Scope Limitation

Illustration 1 — A Reviewer's Report on the Firm's System of Quality ~~Control~~*Management* With a Peer Review Rating of Pass

[*Firm letterhead for a firm-on-firm review; team captain's firm letterhead for an association-formed review team*]

Report on the Firm's System of Quality ~~Control~~*Management*

[*Exit Conference Date*]

To the Partners of [*or other appropriate terminology*] XYZ & Co. and the Peer Review Committee of the [*insert the name of the applicable administering entity*], [fn 1]

We [fn 2] have reviewed the system of quality ~~control~~ ***management*** for the accounting and auditing practice of XYZ & Co. (the firm) [fn 3] in effect for the year ended June 30, 20XX. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards).

A summary of the nature, objectives, scope, limitations of, and the procedures performed in a system review as described in the Standards may be found at www.aicpa.org/prsummary. The summary also includes an explanation of how engagements identified as not performed or reported on in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.

Firm's Responsibility

The firm is responsible for designing***, implementing,*** and ~~complying with~~ ***operating*** a system of quality ~~control~~ ***management*** to provide the firm with reasonable assurance of performing and reporting in conformity with the requirements of applicable professional standards in all material respects. The firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported on in conformity with the requirements of applicable professional standards, when appropriate, and for remediating weaknesses in its system of quality ~~control~~ ***management***, if any.

[fn 1] The report of a firm whose review is administered by the National Peer Review Committee should be addressed as follows: "To the Partners of [*or appropriate terminology*] XYZ & Co. and the National Peer Review Committee"

[fn 2] 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* are appropriate only if the reviewed firm has engaged another firm to perform its review and the reviewing firm is a sole practitioner.

[fn 3] The report of a firm who is required to be registered with and inspected by the PCAOB should be tailored here to add "applicable to engagements not subject to PCAOB permanent inspection."

Peer Reviewer's Responsibility

Our responsibility is to express an opinion on the design***, implementation, and operating effectiveness*** of ~~and compliance with~~ the firm's system of quality ~~control~~ ***management*** based on our review.

Required Selections and Considerations

Engagements selected for review included engagements performed under *Government Auditing Standards*, including compliance audits under the Single Audit Act; audits of employee benefit plans; audits performed under FDICIA; and examinations of service organizations (SOC 1® and SOC 2® engagements). [fn 4]

As a part of our peer review, we considered reviews by regulatory entities as communicated by the firm, if applicable, in determining the nature and extent of our procedures.

Opinion

In our opinion, the system of quality ~~control~~ ***management*** for the accounting and auditing practice of XYZ & Co. [fn 5] in effect for the year ended June 30, 20XX, has been suitably designed***, implemented,*** and ~~complied with~~ ***operated*** to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies),* or *fail*. XYZ & Co. has received a peer review rating of *pass*.

[*Name of team captain's firm*]

[fn 4] If the firm performs audits of employee benefit plans; engagements performed under *Government Auditing Standards,* including compliance audits under the Single Audit Act; audits of depository institutions with total assets of $500 million or more at the beginning of the institution's fiscal year; examinations of service organizations (SOC 1 and SOC 2 engagements); or other engagements required to be selected by the board, the engagement(s) selected for review should be identified in the report using this paragraph, tailored as applicable. If the reviewer selected an engagement under *Government Auditing Standards* (excluding engagements subject to the Single Audit Act) and also selected an engagement solely to evaluate a compliance audit under the Single Audit Act, this portion of the sentence should read as follows: "*Government Auditing Standards*, compliance audits under the Single Audit Act," and so on. For SOC engagements, the paragraph should be tailored to reflect the type(s) selected for review. The paragraph should be tailored to indicate if single or multiple engagements were selected for review (for example, an audit versus audits). If the firm does not perform such engagements, this paragraph is not applicable and not included in the report.

[fn 5] The report of a firm that is required to be registered with and inspected by the PCAOB should be tailored here to add "applicable to engagements not subject to PCAOB permanent inspection."

Illustration 2 — A Reviewer's Report on the Firm's System of Quality ~~Control~~*Management* With a Peer Review Rating of Pass With a Scope Limitation

[*Firm letterhead for a firm-on-firm review; team captain's firm letterhead for an association-formed review team*]

Report on the Firm's System of Quality ~~Control~~*Management*

[*Exit Conference Date*]

To the Partners of [*or other appropriate terminology*] XYZ & Co. and the Peer Review Committee of the [*insert the name of the applicable administering entity*], [fn 1]

We [fn 2] have reviewed the system of quality ~~control~~ ***management*** for the accounting and auditing practice of XYZ & Co. (the firm) [fn 3] in effect for the year ended June 30, 20XX. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards).

The nature, objectives, scope, limitations of, and the procedures performed in a system review as described in the Standards may be found at www.aicpa.org/prsummary. The summary also includes an explanation of how engagements identified as not performed or reported on in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.

Firm's Responsibility

The firm is responsible for designing***, implementing, and operating*** ~~and complying with~~ a system of quality ~~control~~ ***management*** to provide the firm with reasonable assurance of performing and reporting in conformity with the requirements of applicable professional standards in all material respects. The firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported on in conformity with the requirements of the applicable professional standards, when appropriate, and for remediating weaknesses in its system of quality ~~control~~ ***management***, if any.

Peer Reviewer's Responsibility

[fn 1] The report of a firm whose review is administered by the National Peer Review Committee should be addressed as follows: "To the Partners of [*or appropriate terminology*] XYZ & Co. and the National Peer Review Committee"

[fn 2] 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* are appropriate only if the reviewed firm has engaged another firm to perform its review and the reviewing firm is a sole practitioner.

[fn 3] The report of a firm that is required to be registered with and inspected by the PCAOB should be tailored here to add "applicable to engagements not subject to PCAOB permanent inspection."

Our responsibility is to express an opinion on the design***, implementation, and operating effectiveness*** of ~~and compliance with~~ the firm's system of quality ~~control~~ ***management*** based on our review.

Required Selections and Considerations

Engagements selected for review included engagements performed under *Government Auditing Standards*, including compliance audits under the Single Audit Act; audits of employee benefit plans; audits performed under FDICIA; and examinations of service organizations (SOC 1® and SOC 2® engagements). [fn 4]

As a part of our peer review, we considered reviews by regulatory entities as communicated by the firm, if applicable, in determining the nature and extent of our procedures.

Scope Limitation [fn 5]

In performing our review, the firm notified us that we would be unable to review the engagements performed by one of its former partners who left the firm during the peer review year. Accordingly, we were unable to include in our engagement selection any of the divested engagements. That partner's responsibility was concentrated in the construction industry. The engagements excluded from our engagement selection process included audit engagements and comprised approximately 15 percent of the firm's audit and accounting practice during the peer review year.

Opinion

In our opinion, except for any deficiencies or significant deficiencies that might have come to our attention had we been able to review divested engagements, as previously described, the system of quality ~~control~~ ***management*** for the accounting and auditing practice of XYZ & Co. [fn 6] in effect for the year ended June 30, 20XX, has been suitably designed**,**

[fn 4] If the firm performs audits of employee benefit plans, engagements performed under *Government Auditing Standards,* including compliance audits under the Single Audit Act; audits of depository institutions with total assets of $500 million or more at the beginning of the institution's fiscal year; examinations of service organizations (SOC 1 and SOC 2 engagements); or other engagements required to be selected by the board, the engagement(s) selected for review should be identified in the report using this paragraph, tailored as applicable. If the reviewer selected an engagement under *Government Auditing Standards* (excluding engagements subject to the Single Audit Act) and also selected an engagement solely to evaluate a compliance audit under the Single Audit Act, this portion of the sentence should read as follows "*Government Auditing Standards*, compliance audits under the Single Audit Act," and so on. For SOC engagements, the paragraph should be tailored to reflect the type(s) selected for review. The paragraph should be tailored to indicate if single or multiple engagements were selected for review (for example, an audit versus audits). If the firm does not perform such engagements, this paragraph is not applicable and not included in the report.

[fn 5] The scope limitation paragraph provided is an example for illustrative purposes only.

[fn 6] The report of a firm that is required to be registered with and inspected by the PCAOB should be tailored here to add "applicable to engagements not subject to PCAOB permanent inspection."

implemented, and operated ~~and complied with~~ to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies),* or *fail*. XYZ & Co. has received a peer review rating of *pass (with a scope limitation)*.

[*Name of team captain's firm*]

Illustration 3 — A Reviewer's Report on the Firm's System of Quality ~~Control~~*Management* With a Peer Review Rating of Pass With Deficiencies

[*Firm letterhead for a firm-on-firm review; team captain's firm letterhead for an association-formed review team*]

Report on the Firm's System of Quality ~~Control~~*Management*

[*Exit Conference Date*]

To the Partners of [*or other appropriate terminology*] XYZ & Co. and the Peer Review Committee of the [*insert the name of the applicable administering entity*], [fn 1]

We [fn 2] have reviewed the system of quality ~~control~~ ***management*** for the accounting and auditing practice of XYZ & Co. (the firm) [fn 3] in effect for the year ended June 30, 20XX. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards).

A summary of the nature, objectives, scope, limitations of, and the procedures performed in a system review as described in the Standards may be found at www.aicpa.org/prsummary. The summary also includes an explanation of how engagements identified as not performed or reported on in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.

Firm's Responsibility

The firm is responsible for designing***, implementing, and operating*** ~~and complying with~~ a system of quality ~~control~~ ***management*** to provide the firm with reasonable assurance of performing and reporting in conformity with the requirements of applicable professional standards in all material respects. The firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported on in conformity with the requirements of the applicable professional standards, when appropriate, and for remediating weaknesses in its system of quality ~~control~~ ***management***, if any.

[fn 1] The report of a firm whose review is administered by the National Peer Review Committee should be addressed as follows: "To the Partners of [*or appropriate terminology*] XYZ & Co. and the National Peer Review Committee."

[fn 2] 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* are appropriate only if the reviewed firm has engaged another firm to perform its review and the reviewing firm is a sole practitioner.

[fn 3] The report of a firm that is required to be registered with and inspected by the PCAOB should be tailored here to add "applicable to engagements not subject to PCAOB permanent inspection."

Peer Reviewer's Responsibility

Our responsibility is to express an opinion on the design***, implementation, and operating effectiveness*** of ~~and compliance with~~ the firm's system of quality ~~control~~ ***management*** based on our review.

Required Selections and Considerations

Engagements selected for review included engagements performed under *Government Auditing Standards*, including compliance audits under the Single Audit Act; audits of employee benefit plans; audits performed under FDICIA; and examinations of service organizations (SOC 1® and SOC 2® engagements). [fn 4]

As a part of our peer review, we considered reviews by regulatory entities as communicated by the firm, if applicable, in determining the nature and extent of our procedures.

Deficiencies [fn 5] Identified in the Firm's System of Quality ~~Control~~*Management*

We noted the following deficiencies [fn 6] during our review:

1. The firm's quality ~~control~~ ***management*** policies and procedures addressing continuing professional education (CPE) are not suitably designed ***and implemented*** or ***operating effectively*** ~~complied with~~ to provide reasonable assurance that its personnel will have the competence necessary to perform engagements in accordance with professional and regulatory requirements. Although the firm's policies require that personnel attain a minimum of 40 hours of CPE courses annually and comply with CPE requirements of the applicable external bodies, the firm lacks appropriate procedures to determine whether the personnel are in compliance with these requirements. During our review, we noted several personnel who did not comply with CPE requirements of *Government Auditing Standards*. In our opinion, this contributed to audit engagements

[fn 4] If the firm performs audits of employee benefit plans; engagements performed under *Government Auditing Standards,* including compliance audits under the Single Audit Act; audits of depository institutions with total assets of $500 million or more at the beginning of the institution's fiscal year; examinations of service organizations (SOC 1 and SOC 2 engagements); or other engagements required to be selected by the board, the engagement(s) selected for review should be identified in the report using this paragraph, tailored as applicable. If the reviewer selected an engagement under *Government Auditing Standards* (excluding engagements subject to the Single Audit Act) and also selected an engagement solely to evaluate a compliance audit under the Single Audit Act, this portion of the sentence should read as follows "Government Auditing Standards, compliance audits under the Single Audit Act," and so on. For SOC engagements, the paragraph should be tailored to reflect the type(s) selected for review. The paragraph should be tailored to indicate if single or multiple engagements were selected for review (for example, an audit versus audits). If the firm does not perform such engagements, this paragraph is not applicable and not included in the report.

[fn 5] This should be tailored to indicate a single deficiency, when applicable.

[fn 6] The deficiencies provided are examples for illustrative purposes only.

performed under *Government Auditing Standards* that did not conform to professional standards in all material respects.

2. The firm's quality ~~control~~ ***management*** policies and procedures regarding engagement performance have not been suitably designed ***and implemented*** or ***operating effectively*** ~~complied with~~ to provide reasonable assurance that audit engagements are consistently performed in accordance with professional standards. The firm requires the use of a non-industry-specific audit program but does not require that program to be tailored to cover requirements of specialized industries or those subject to regulatory bodies. During our review, we noted procedures were not performed to determine if a banking institution met its minimum capital requirements. In our opinion, this contributed to audit engagements in the banking industry that did not conform to professional standards in all material respects.

Opinion

In our opinion, except for the deficiencies previously described, the system of quality ~~control~~ ***management*** for the accounting and auditing practice of XYZ & Co. [fn 7] in effect for the year ended June 30, 20XX, has been suitably designed***, implemented, and operating effectively*** ~~and complied with~~ to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)*, or *fail*. XYZ & Co. has received a peer review rating of *pass with deficiencies*.

[*Name of team captain's firm*]

[fn 7] The report of a firm that is required to be registered with and inspected by the PCAOB should be tailored here to add "applicable to engagements not subject to PCAOB permanent inspection."

Illustration 4 — A Reviewer's Report on the Firm's System of Quality ~~Control~~*Management* With a Peer Review Rating of Pass With Deficiencies With a Scope Limitation

[*Firm letterhead for a firm-on-firm review; team captain's firm letterhead for an association-formed review team*]

Report on the Firm's System of Quality ~~Control~~*Management*

[*Exit Conference Date*]

To the Partners of [*or other appropriate terminology*] XYZ & Co. and the Peer Review Committee of the [*insert the name of the applicable administering entity*], [fn 1]

We [fn 2] have reviewed the system of quality ~~control~~ ***management*** for the accounting and auditing practice of XYZ & Co. (the firm) [fn 3] in effect for the year ended June 30, 20XX. Except as subsequently described, our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards).

A summary of the nature, objectives, scope, limitations of, and the procedures performed in a system review as described in the Standards may be found at www.aicpa.org/prsummary. The summary also includes an explanation of how engagements identified as not performed or reported on in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.

Firm's Responsibility

The firm is responsible for designing***, implementing, and operating*** ~~and complying with~~ a system of quality ~~control~~ ***management*** to provide the firm with reasonable assurance of performing and reporting in conformity with the requirements of the applicable professional standards in all material respects. The firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported on in conformity with the requirements of the applicable professional standards, when appropriate, and for remediating weaknesses in its system of quality ~~control~~ ***management***, if any.

[fn 1] The report of a firm whose review is administered by the National Peer Review Committee should be addressed as follows: "To the Partners of [*or appropriate terminology*] XYZ & Co. and the National Peer Review Committee"

[fn 2] 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* are appropriate only if the reviewed firm has engaged another firm to perform its review and the reviewing firm is a sole practitioner.

[fn 3] The report of a firm that is required to be registered with and inspected by the PCAOB should be tailored here to add "applicable to engagements not subject to PCAOB permanent inspection."

Peer Reviewer's Responsibility

Our responsibility is to express an opinion on the design***, implementation, and operating effectiveness*** of ~~and compliance with~~ the firm's system of quality ~~control~~ ***management*** based on our review.

Required Selections and Considerations

Engagements selected for review included audits of employee benefit plans; audits performed under FDICIA; and examinations of service organizations (SOC 1® and SOC 2® engagements). [fn 4]

As a part of our peer review, we considered reviews by regulatory entities as communicated by the firm, if applicable, in determining the nature and extent of our procedures.

Deficiency [fn 5] **Identified in the Firm's System of Quality ~~Control~~*Management***

We noted the following deficiency [fn 6] during our review:

1. The firm's quality ~~control~~ ***management*** policies and procedures regarding engagement performance have not been suitably designed ***and implemented*** or ***operating effectively*** ~~complied with~~ to provide reasonable assurance that audit engagements are consistently performed in accordance with applicable regulatory requirements. As noted in the following text, we were unable to select the firm's only audit subject to *Government Auditing Standards* (the Yellow Book). As a result, the firm was not in compliance with the Yellow Book peer review engagement selection requirements.

Scope Limitation [fn 7]

[fn 4] If the firm performs audits of employee benefit plans; engagements performed under *Government Auditing Standards,* including compliance audits under the Single Audit Act; audits of depository institutions with total assets of $500 million or more at the beginning of the institution's fiscal year; examinations of service organizations (SOC 1 and SOC 2 engagements); or other engagements required to be selected by the board, the engagement(s) selected for review should be identified in the report using this paragraph, tailored as applicable. If the reviewer selected an engagement under *Government Auditing Standards* (excluding engagements subject to the Single Audit Act) and also selected an engagement solely to evaluate a compliance audit under the Single Audit Act, this portion of the sentence should read as follows "Government Auditing Standards, compliance audits under the Single Audit Act," and so on. For SOC engagements, the paragraph should be tailored to reflect the type(s) selected for review. The paragraph should be tailored to indicate if single or multiple engagements were selected for review (for example, an audit versus audits). If the firm does not perform such engagements, this paragraph is not applicable and not included in the report.

[fn 5] This language should be tailored to indicate multiple deficiencies, when applicable.

[fn 6] The deficiency provided is an example for illustrative purposes only.

[fn 7] The scope limitation paragraph provided is an example for illustrative purposes only.

In performing our review, the firm notified us that we would be unable to select its only audit subject to *Government Auditing Standards* (the Yellow Book). As a result, we were unable to review all the engagements required to be selected by the standards established by the Peer Review Board of the AICPA.

Opinion

In our opinion, except for the effects of the deficiency previously described and any additional deficiencies or significant deficiencies that might have come to our attention had we been able to review the engagement as previously described, the system of quality ~~control~~ ***management*** for the accounting and auditing practice of XYZ & Co.[fn 8] in effect for the year ended June 30, 20XX, has been suitably designed***, implemented,*** and ***operated*** ~~complied with~~ to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)*, or *fail*. XYZ & Co. has received a peer review rating of *pass with deficiency (with a scope limitation)*.

[*Name of team captain's firm*]

[fn 8] The report of a firm that is required to be registered with and inspected by the PCAOB should be tailored here to add "applicable to engagements not subject to PCAOB permanent inspection."

Illustration 5 — A Reviewer's Report on the Firm's System of Quality ~~Control~~*Management* With a Peer Review Rating of Fail

[*Firm letterhead for a firm-on-firm review; team captain's firm letterhead for an association-formed review team*]

Report on the Firm's System of Quality ~~Control~~*Management*

[*Exit Conference Date*]

To the Partners of [*or other appropriate terminology*] XYZ & Co. and the Peer Review Committee of the [*insert the name of the applicable administering entity*], [fn 1]

We [fn 2] have reviewed the system of quality ~~control~~ ***management*** for the accounting and auditing practice of XYZ & Co. (the firm) [fn 3] in effect for the year ended June 30, 20XX. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards).

A summary of the nature, objectives, scope, limitations of, and the procedures performed in a system review as described in the Standards may be found at www.aicpa.org/prsummary. The summary also includes an explanation of how engagements identified as not performed or reported on in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.

Firm's Responsibility

The firm is responsible for designing***, implementing, and operating*** ~~and complying with~~ a system of quality ~~control~~ ***management*** to provide the firm with reasonable assurance of performing and reporting in conformity with the requirements of the applicable professional standards in all material respects. The firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported on in conformity with the requirements of the applicable professional standards, when

[fn 1] The report of a firm whose review is administered by the National Peer Review Committee should be addressed as follows: "To the Partners of [*or appropriate terminology*] XYZ & Co. and the National Peer Review Committee."

[fn 2] 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* are appropriate only if the reviewed firm has engaged another firm to perform its review and the reviewing firm is a sole practitioner.

[fn 3] The report of a firm that is required to be registered with and inspected by the PCAOB should be tailored here to add "applicable to engagements not subject to PCAOB permanent inspection."

appropriate, and for remediating weaknesses in its system of quality ~~control~~ ***management***, if any.

Peer Reviewer's Responsibility

Our responsibility is to express an opinion on the design***, implementation, and operating effectiveness*** of ~~and compliance with~~ the firm's system of quality ~~control~~ ***management*** based on our review.

Required Selections and Considerations

Engagements selected for review included engagements performed under *Government Auditing Standards,* including compliance audits under the Single Audit Act; audits of employee benefit plans; audits performed under FDICIA; and examinations of service organizations (SOC 1® and SOC 2® engagements). [fn 4]

As a part of our peer review, we considered reviews by regulatory entities as communicated by the firm, if applicable, in determining the nature and extent of our procedures.

Significant Deficiencies[fn 5] **Identified in the Firm's System of Quality ~~Control~~*Management***

We noted the following significant deficiencies [fn 6] during our review:

1. The firm's quality ~~control~~ ***management*** policies and procedures do not provide reasonable assurance that the firm will comply with applicable professional standards and will issue reports that are appropriate in the circumstances, as a result of the following significant deficiencies:

    a. The firm lacks policies and procedures addressing new engagement acceptance to reasonably ensure it only undertakes engagements that it has

[fn 4] If the firm performs audits of employee benefit plans; engagements performed under *Government Auditing Standards,* including compliance audits under the Single Audit Act; audits of depository institutions with total assets of $500 million or more at the beginning of the institution's fiscal year; examinations of service organizations (SOC 1 and SOC 2 engagements); or other engagements required to be selected by the board, the engagement(s) selected for review should be identified in the report using this paragraph, tailored as applicable. If the reviewer selected an engagement under *Government Auditing Standards* (excluding engagements subject to the Single Audit Act) and also selected an engagement solely to evaluate a compliance audit under the Single Audit Act, this portion of the sentence should read as follows "Government Auditing Standards, compliance audits under the Single Audit Act," and so on. For SOC engagements, the paragraph should be tailored to reflect the type(s) selected for review. The paragraph should be tailored to indicate if single or multiple engagements were selected for review (for example, an audit versus audits). If the firm does not perform such engagements, this paragraph is not applicable and not included in the report.

[fn 6] When considered together, the deficiencies rise to the level of significant deficiencies. The significant deficiencies provided are examples for illustrative purposes only.

the capabilities, resources, and professional competence to complete in accordance with applicable professional standards.

b. The firm lacks policies and procedures addressing continuing professional education (CPE) to require its personnel to obtain relevant training to prepare for engagements in new industries or service areas.

c. Firm ***governance and*** leadership has not implemented policies and procedures ***designed to provide the firm with reasonable assurance that the firm and its personnel conduct engagements in accordance with professional and legal standards and that engagement reports issued by the firm are appropriate in the circumstances*** ~~to provide clear, consistent, and frequent actions and messages from all levels of the firm's management that emphasize the firm's commitment to quality~~.

In our opinion, the significant deficiencies described previously contributed to an employee benefit plan audit that did not conform to professional standards in all material respects. During our review, we discovered that the firm had undertaken an employee benefit plan audit without performing appropriate acceptance procedures, including the engagement partner obtaining relevant CPE or otherwise obtaining sufficient knowledge to conduct the audit.

2. The firm's quality ~~control~~ ***management*** policies and procedures addressing continuing professional education (CPE) are not sufficient to provide reasonable assurance that its personnel will have the competence necessary to perform engagements in accordance with professional and regulatory requirements. The courses taken by firm personnel did not provide them with sufficient information about current developments in accounting and auditing matters. In our opinion, this led to firm personnel being unable to appropriately address recent pronouncements and new disclosure requirements and failure to consider new auditing standards and other required communications. This contributed to audit engagements performed under *Government Auditing Standards*, and audits in other industries, that did not conform to professional standards in all material respects.

3. The firm's quality ~~control~~ ***management*** policies and procedures regarding monitoring ***and remediation*** do not provide it with reasonable assurance that the policies and procedures relating to the system of quality ~~control~~ ***management*** are ***designed, implemented,*** ~~relevant, adequate,~~ and operating effectively. The firm's quality ~~control~~ ***management*** policies and procedures do not

a. include an ongoing consideration and evaluation of the firm's system of quality ~~control~~ ***management***, including inspection or a periodic review of engagement documentation, reports, and clients' financial statements for a selection of completed engagements.

b. require responsibility for the monitoring process to be assigned to a partner or partners or other persons with sufficient and appropriate experience and authority in the firm to assume that responsibility.

c. assign the performance of monitoring the firm's system of quality ~~control~~ ***management*** to qualified individuals.

d. require firm leadership to perform an (at least) annual evaluation of its system of quality management.

Opinion

In our opinion, as a result of the significant deficiencies previously described, the system of quality ~~control~~ ***management*** for the accounting and auditing practice of XYZ & Co. [fn 7] in effect for the year ended June 30, 20XX, was not suitably designed***, implemented, or operated*** ~~complied with~~ to provide the firm with reasonable assurance of performing or reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)*, or *fail*. XYZ & Co. has received a peer review rating of *fail*.

[*Name of team captain's firm*]

[fn 7] The report of a firm that is required to be registered with and inspected by the PCAOB should be tailored here to add "applicable to engagements not subject to PCAOB permanent inspection."

Illustration 6 — A Reviewer's Report on the Firm's System of Quality ~~Control~~*Management* With a Peer Review Rating of Fail With a Scope Limitation

[*Firm letterhead for a firm-on-firm review; team captain's firm letterhead for an association-formed review team*]

Report on the Firm's System of Quality ~~Control~~*Management*

[*Exit Conference Date*]

To the Partners of [*or other appropriate terminology*] XYZ & Co. and the Peer Review Committee of the [*insert the name of the applicable administering entity*], [fn 1]

We [fn 2] have reviewed the system of quality ~~control~~ ***management*** for the accounting and auditing practice of XYZ & Co. (the firm) [fn 3] in effect for the year ended June 30, 20XX. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards).

A summary of the nature, objectives, scope, limitations of, and the procedures performed in a system review as described in the Standards may be found at www.aicpa.org/prsummary. The summary also includes an explanation of how engagements identified as not performed or reported on in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.

Firm's Responsibility

The firm is responsible for designing***, implementing, and operating*** ~~and complying with~~ a system of quality ~~control~~ ***management*** to provide the firm with reasonable assurance of performing and reporting in conformity with the requirements of the applicable professional standards in all material respects. The firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported on in conformity with the requirements of the applicable professional standards, when

[fn 1] The report of a firm whose review is administered by the National Peer Review Committee should be addressed as follows: "To the Partners of [*or appropriate terminology*] XYZ & Co. and the National Peer Review Committee."

[fn 2] 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* are appropriate only if the reviewed firm has engaged another firm to perform its review and the reviewing firm is a sole practitioner.

[fn 3] The report of a firm that is required to be registered with and inspected by the PCAOB should be tailored here to add "applicable to engagements not subject to PCAOB permanent inspection."

appropriate, and for remediating weaknesses in its system of quality ~~control~~ ***management***, if any.

Peer Reviewer's Responsibility

Our responsibility is to express an opinion on the design***, implementation, and operating effectiveness*** of ~~and compliance with~~ the firm's system of quality ~~control~~ ***management*** based on our review.

Required Selections and Considerations

Engagements selected for review included engagements performed under *Government Auditing Standards*; audits of employee benefit plans, audits performed under FDICIA, and examinations of service organizations (SOC 1® and SOC 2® engagements). [fn 4]

As a part of our peer review, we considered reviews by regulatory entities as communicated by the firm, if applicable, in determining the nature and extent of our procedures.

Significant Deficiencies [fn 5] **Identified in the Firm's System of Quality** ~~**Control**~~***Management***

In addition, we noted the following significant deficiencies [fn 6] during our review:

1. The firm's quality ~~control~~ ***management*** policies and procedures ***are not operating effectively to*** provide reasonable assurance that the firm and its personnel will comply with relevant ethical requirements. The firm's quality ~~control~~ ***management*** policies and procedures require that written independence representations be obtained annually from all partners and personnel and then be reviewed by a partner in the firm assigned overall responsibility for such matters. During our review, we noted that the responsible partner left the firm in the early part of the year and her

[fn 4] If the firm performs audits of employee benefit plans; engagements performed under *Government Auditing Standards,* including compliance audits under the Single Audit Act; audits of depository institutions with total assets of $500 million or more at the beginning of the institution's fiscal year; examinations of service organizations (SOC 1 and SOC 2 engagements); or other engagements required to be selected by the board, the engagement(s) selected for review should be identified in the report using this paragraph, tailored as applicable. If the reviewer selected an engagement under *Government Auditing Standards* (excluding engagements subject to the Single Audit Act) and also selected an engagement solely to evaluate a compliance audit under the Single Audit Act, this portion of the sentence should read as follows "Government Auditing Standards, compliance audits under the Single Audit Act," and so on. For SOC engagements, the paragraph should be tailored to reflect the type(s) selected for review. The paragraph should be tailored to indicate if single or multiple engagements were selected for review (for example, an audit versus audits). If the firm does not perform such engagements, this paragraph is not applicable and not included in the report.

[fn 5] This language should be tailored to indicate a single significant deficiency, when applicable.

[fn 6] When considered together, the deficiencies rise to the level of significant deficiencies. The significant deficiencies provided are examples for illustrative purposes only.

responsibilities in this area had not been reassigned. In our opinion, this contributed to several of the firm's personnel failing to sign such a representation. Written independence representations were subsequently obtained but there were instances where the firm was not independent with respect to the financial statements on which it reported, which caused the engagements to not conform to professional standards in all material respects.

2. The firm's policies and procedures regarding acceptance and continuance of clients are not ***operating effectively*** ~~complied with~~ to provide it with reasonable assurance that its personnel are competent to perform the engagement and have the capabilities to do so. The firm accepted an audit in a specialized industry in which it had no experience or expertise and did not take steps to obtain competency prior to issuing the audit report. In our opinion, this contributed to an employee benefit plan audit that was not performed in accordance with professional standards in all material respects.

3. The firm's use of the standardized planning forms required by its quality ~~control~~ ***management*** policies and procedures for engagement performance are not ***operating effectively*** ~~consistently complied with~~ to provide reasonable assurance that audit engagements are performed in accordance with professional standards. Despite such forms including audit planning steps for considering preliminary judgments about materiality levels, fraud risk factors, planned assessed level of control risk, analytical review procedures, and conditions that may require an extension of or a modification of tests, we noted several engagements that lacked sufficient evidence of such considerations. In our opinion, this contributed to audits of employee benefit plans and audit engagements in other industries that did not conform to professional standards in all material respects.

Scope Limitation [fn 7]

In performing our review, the firm notified us that we would be unable to review the engagements performed by one of the firm's four offices that divested from the firm during the peer review year. As a result, we were unable to include within our engagement selection any engagements issued by that office. The engagements excluded from our engagement selection process included audit engagements and composed approximately 20 percent of the firm's audit and accounting hours during the peer review year.

Opinion

In our opinion, as a result of the significant deficiencies previously described, and any additional significant deficiencies that might have come to our attention had we been able to review engagements from the divested office as previously described, the system of

[fn 7] The scope limitation paragraph provided is an example for illustrative purposes only.

quality ~~control~~ ***management*** for the accounting and auditing practice of XYZ & Co.[fn 8] in effect for the year ended June 30, 20XX, was not suitably designed***, implemented, or operating effectively*** ~~or complied with~~ to provide the firm with reasonable assurance of performing or reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)*, or *fail*. XYZ & Co. has received a peer review rating of *fail (with a scope limitation)*.

[*Name of team captain's firm*]

[fn 8] The report of a firm that is required to be registered with and inspected by the PCAOB should be tailored here to add "applicable to engagements not subject to PCAOB permanent inspection."

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

Introduction

[Paragraphs .01–.12 are unchanged.]

.13 The review captain should select the following: (Ref: par. .A6–.A***8***~~7~~)

a. One engagement from each of the following levels of service performed by the firm:

i. Reviews of financial statements (performed under SSARSs)

ii. Compilations of financial statements with disclosures (performed under SSARSs)

iii. Compilations of financial statements that omit substantially all disclosures (performed under SSARSs)

iv. Engagements performed under the SSAEs other than examinations

b. One engagement from each engagement partner responsible for the issuance of reports listed in item (*a*).

c. At least two engagements, unless only one is performed

[Paragraphs .14–.29 are unchanged.]

Written Representations

.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. .A***20***~~19~~)

a. Management has fulfilled its responsibility for the design***, implementation, and operating effectiveness*** of ~~and compliance with~~ a system of quality ~~control~~ ***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. (If

there are known instances of noncompliance, management should summarize the instances and, if applicable, describe its remediation of the noncompliance.)

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 ~~control~~ ***management*** materials it has developed or adopted. Management has tailored and augmented the materials as appropriate such that the quality ~~control~~ ***management*** materials encompass guidance that is sufficient to assist it in conforming with professional standards (including the Statements on Quality ~~Control~~***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–.32 are unchanged.]

Reporting on Engagement Reviews

[Paragraph .33 is unchanged.]

.34 The written report in an engagement review should (Ref: par. .A*27*~~26~~)

a. be dated as of the exit conference date.

b. be issued on letterhead of the firm performing the review.

c. state at the top of the report the title "Report on the Firm's Conformity With Professional Standards on Engagements Reviewed."

d. include headings for each of the following sections:

i. Firm's Responsibility

ii. Peer Reviewer's Responsibility

iii. Deficiency(ies) Identified in the Firm's Conformity With Professional Standards on Engagements Reviewed (if applicable)

iv. Scope Limitation (if applicable)

v. Conclusion

e. state that the review captain reviewed selected accounting engagements of the firm and include the year-end covered by the peer review.

f. state that the peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews (the standards) established by the Peer Review Board of the American Institute of Certified Public Accountants.

g. state that the nature, objectives, scope, limitations of, and procedures performed in an engagement review as described in the standards can be found on the AICPA website where the standards are summarized.

h. include a URL reference to the AICPA website where the standards are located and state that the summary includes an explanation of how engagements identified as not performed or reported on in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.

i. state that the firm is responsible for designing***, implementing, and operating*** ~~and complying with~~ a system of quality ~~control~~ ***management*** to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects and for evaluating actions to promptly remediate engagements deemed as not performed or reported on in conformity with

professional standards, when appropriate, and for remediating weaknesses in its system of quality ~~control~~ ***management***, if any.

j. state that the peer reviewer's responsibility is to evaluate whether the engagements submitted for review were performed and reported on in conformity with applicable professional standards in all material respects.

k. state that an engagement review does not include reviewing the firm's system of quality ~~control~~ ***management*** and compliance therewith and, accordingly, the review captain expresses no opinion or any form of assurance on that system. (Ref: par. .A***28***~~27~~)

l. in the event of a scope limitation, include an additional paragraph before the last paragraph that describes the relationship of the excluded engagements to the firm's practice, the highest level of service and industry concentration, if any, of the engagements excluded from the potential selection, and the effect of the exclusion on the scope and results of the peer review. Tailor the conclusion, as appropriate, to address the scope limitation.

m. identify the different peer review ratings that the firm could receive.

n. in a report with a peer review rating of *pass*, state

i. that nothing came to the review captain's attention that caused the review captain to believe that the engagements submitted for review were not performed and reported on in conformity with applicable professional standards in all material respects.

ii. that the firm has received a peer review rating of *pass*.

o. in a report with a peer review rating of *pass with deficiencies*, state

i. that because of the deficiencies previously described, the review captain believes that at least one but not all the engagements submitted for review were not performed and reported on in conformity with applicable professional standards in all material respects.

ii. that the firm has received a peer review rating of *pass with deficiencies*.

p. in a report with a peer review rating of *fail*, state

i. that because of the deficiencies previously described, the review captain believes that all the engagements submitted for review were not performed or reported on in conformity with applicable professional standards in all material respects.

ii. that the firm has received a peer review rating of *fail*.

q. in a report with a peer review rating of *pass with deficiencies* or *fail*,

i. include descriptions of the deficiencies (each of these should be numbered).

ii. if there are any repeat deficiencies, state that the deficiency was noted in the firm's previous peer review. (Ref: par. .A***29***~~28~~ .A***30***~~29~~)

iii. identify the level of service for any deficiencies. If the deficiency is industry specific, also identify the industry.

Submission of Peer Review Documentation to the AE by the Review Captain

[Paragraphs .35–.36 are unchanged.]

Application and Other Explanatory Material

[Paragraphs .A1–.A5 are unchanged.]

.A6 The objective of the engagement selection requirements is to select ~~one engagement from each engagement partner and~~ one engagement from each level of service listed in paragraph .13*a* for the firm***, including one engagement from each engagement partner***.

[Paragraph .A7 is unchanged.]

.A8 As an example, a firm may have indicated that engagement partner A issues review reports on 4 construction contractors, 2 retailers, and 10 manufacturers, but engagement partner B issues compilation reports on 30 medical practices and review reports on 5 restaurants. To meet the requirement as described in paragraph .13, the reviewer may ask to submit one of engagement partner A's review reports on a construction contractor and one of engagement partner B's compilation reports on a medical practice. The firm will choose the engagements based on those selections.

[Paragraphs .A8–.A26 are renumbered to .A9–.A27. The content is unchanged.]

.A*28*~~27~~ Review of a firm's documentation or procedures related to its system of quality ~~control~~ ***management*** is outside the scope of an engagement review. An engagement review does not include tests of the firm's administrative or personnel files, interviews of selected firm personnel, or other procedures performed in a system review. Therefore, an engagement review does not provide the review captain with a basis for expressing any form of assurance on the firm's system of quality ~~control~~ ***management*** for its accounting practice.

[Paragraphs .A28–.A30 are renumbered to .A29–.A31. The content is unchanged.]

Appendix A — Examples of Noncompliance With Applicable Professional Standards

[Paragraph .A31 is renumbered to .A32. The content is unchanged.]

Exhibit B — Illustrative Examples of a Reviewer's Report on the Firm's Conformity With Professional Standards on Engagements Reviewed

.A*33~~32~~* This exhibit contains various illustrations of a peer reviewer's report on the reviewed firm's conformity with professional standards on engagements reviewed.

Illustration 1 — A Reviewer's Report on the Firm's Conformity With Professional Standards on Engagements Reviewed With a Peer Review Rating of Pass

Illustration 2 — A Reviewer's Report on the Firm's Conformity With Professional Standards on Engagements Reviewed With a Peer Review Rating of Pass With Deficiencies

Illustration 3 — A Reviewer's Report on the Firm's Conformity With Professional Standards on Engagements Reviewed With a Peer Review Rating of Fail

Illustration 1 — A Reviewer's Report on the Firm's Conformity With Professional Standards on Engagements Reviewed With a Peer Review Rating of Pass

[*Administering entity letterhead for a committee-appointed review team review; firm letterhead for a firm-on-firm review; review captain's firm letterhead for an association-formed review team*]

Report on the Firm's Conformity With Professional Standards on Engagements Reviewed [fn 1]

[*Exit Conference Date*]

To the Partners of [*or other appropriate terminology*] XYZ & Co. and the Peer Review Committee of the [*insert the name of the applicable administering entity*]: [fn 2]

We [fn 3] have reviewed selected accounting engagements of XYZ & Co. (the firm) [fn 4] issued with periods ending during the year ended June 30, 20XX. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards).

A summary of the nature, objectives, scope, limitations of, and the procedures performed in an engagement review as described in the Standards may be found at www.aicpa.org/prsummary.

Firm's Responsibility

The firm is responsible for designing***, implementing, and operating*** ~~*and complying with*~~ a system of quality ~~control~~ ***management*** ~~and complying with it~~ to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. The firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported on in conformity with professional standards, when appropriate, and for remediating weaknesses in its system of quality ~~control~~ ***management***, if any.

[fn 1] The report title and body should be tailored as appropriate when a single engagement is reviewed. The title should be changed to "Report on the Firm's Conformity With Professional Standards on an Engagement Reviewed."

[fn 2] The report of a firm whose review is administered by the National Peer Review Committee should be addressed as follows: "To the Partners of [*or appropriate terminology*] XYZ & Co. and the National Peer Review Committee."

[fn 3] 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* are appropriate only if the reviewed firm has engaged another firm to perform its review and the reviewing firm is a sole practitioner.

[fn 4] The report of a firm that is required to be registered with and inspected by the PCAOB should be tailored here to add "applicable to engagements not subject to PCAOB permanent inspection."

Peer Reviewer's Responsibility

Our responsibility is to evaluate whether the engagements submitted for review were performed and reported on in conformity with applicable professional standards in all material respects.

An engagement review does not include reviewing the firm's system of quality ~~control~~ ***management*** and compliance therewith and, accordingly, we express no opinion or any form of assurance on that system.

Conclusion

Based on our review, nothing came to our attention that caused us to believe that the engagements submitted for review by XYZ & Co. [fn 5] issued with periods ending during the year ended June 30, 20XX, were not performed and reported on in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)*, or *fail*. XYZ & Co. has received a peer review rating of *pass*.

[*Name of review captain's firm on firm-on-firm review or association-formed review team*]

[*or*]

[*Name*], Review Captain [*for committee-appointed review team review*]

[fn 5] The report of a firm that is required to be registered with and inspected by the PCAOB should be tailored here to add "applicable to engagements not subject to PCAOB permanent inspection."

Illustration 2 — A Reviewer's Report on the Firm's Conformity With Professional Standards on Engagements Reviewed With a Peer Review Rating of Pass With Deficiencies

[*Administering entity letterhead for a committee-appointed review team review; firm letterhead for a firm-on-firm review; review captain's firm letterhead for an association-formed review team*]

Report on the Firm's Conformity With Professional Standards on Engagements Reviewed [fn 1]

[*Exit Conference Date*]

To the Partners of [*or other appropriate terminology*] XYZ & Co. and the Peer Review Committee of the [*insert the name of the applicable administering entity*]: [fn 2]

We [fn 3] have reviewed selected accounting engagements of XYZ & Co. (the firm) [fn 4] issued with periods ending during the year ended June 30, 20XX. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards).

A summary of the nature, objectives, scope, limitations of, and the procedures performed in an engagement review as described in the Standards may be found at www.aicpa.org/prsummary.

Firm's Responsibility

The firm is responsible for designing***, implementing, and operating*** ~~*and complying with*~~ a system of quality ~~control~~ ***management*** ~~and complying with it~~ to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. The firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported on in

[fn 1] The report title and body should be tailored as appropriate when a single engagement is reviewed. The title should be changed to "Report on the Firm's Conformity With Professional Standards on an Engagement Reviewed."

[fn 2] The report of a firm whose review is administered by the National Peer Review Committee should be addressed as follows: "To the Partners of [*or appropriate terminology*] XYZ & Co. and the National Peer Review Committee."

[fn 3] 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* are appropriate only if the reviewed firm has engaged another firm to perform its review and the reviewing firm is a sole practitioner.

[fn 4] The report of a firm that is required to be registered with and inspected by the PCAOB should be tailored here to add "applicable to engagements not subject to PCAOB permanent inspection."

conformity with professional standards, when appropriate, and for remediating weaknesses in its system of quality ~~control~~ ***management***, if any.

Peer Reviewer's Responsibility

Our responsibility is to evaluate whether the engagements submitted for review were performed and reported on in conformity with applicable professional standards in all material respects.

An engagement review does not include reviewing the firm's system of quality ~~control~~ ***management*** and compliance therewith and, accordingly, we express no opinion or any form of assurance on that system.

Deficiencies [fn 5] **Identified in the Firm's Conformity With Professional Standards on Engagements Reviewed** [fn 6]

We noted the following deficiencies [fn 7] during our review:

1. On one review engagement of a manufacturing client, we noted that the accompanying accountant's report was not appropriately modified when the financial statements did not appropriately present or disclose matters in accordance with industry standards.

2. On a review engagement, 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. These deficiencies were identified on the firm's previous review.

Conclusion

Because of the deficiencies previously described, we concluded that at least one but not all of the engagements submitted for review by XYZ & Co. [fn 8] issued with periods ending during the year ended June 30, 20XX, were not performed and reported on in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)*, or *fail*. XYZ & Co. has received a peer review rating of *pass with deficiencies*.

[fn 5] The wording should be tailored to indicate a single deficiency, when applicable.

[fn 6] The wording should be tailored to indicate a single engagement reviewed, when applicable.

[fn 7] The deficiencies provided are examples for illustrative purposes only.

[fn 8] The report of a firm that is required to be registered with and inspected by the PCAOB should be tailored here to add "applicable to engagements not subject to PCAOB permanent inspection."

[*Name of review captain's firm on firm-on-firm review or association-formed review team*]

[*or*]

[*Name*], Review Captain [*for committee-appointed review team review*]

Illustration 3 — A Reviewer's Report on the Firm's Conformity With Professional Standards on Engagements Reviewed With a Peer Review Rating of Fail

[*Administering entity letterhead for a committee-appointed review team review; firm letterhead for a firm-on-firm review; review captain's firm letterhead for an association-formed review team*]

Report on the Firm's Conformity With Professional Standards on Engagements Reviewed [fn 1]

[*Exit Conference Date*]

To the Partners of [*or other appropriate terminology*] XYZ & Co. and the Peer Review Committee of the [*insert the name of the applicable administering entity*] [fn 2]

We [fn 3] have reviewed selected accounting engagements of XYZ & Co. (the firm) [fn 4] issued with periods ending during the year ended June 30, 20XX. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards).

A summary of the nature, objectives, scope, limitations of, and the procedures performed in an engagement review as described in the Standards may be found at www.aicpa.org/prsummary.

Firm's Responsibility

The firm is responsible for designing***, implementing, and operating*** ~~and complying with~~ a system of quality ~~control~~ ***management*** ~~and complying with it~~ to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. The firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported on in conformity with professional standards, when appropriate, and for remediating weaknesses in its system of quality ~~control~~ ***management***, if any.

[fn 1] The report title and body should be tailored as appropriate when a single engagement is reviewed. The title should be changed to "Report on the Firm's Conformity With Professional Standards on an Engagement Reviewed."

[fn 2] The report of a firm whose review is administered by the National Peer Review Committee should be addressed as follows: "To the Partners of [*or appropriate terminology*] XYZ & Co. and the National Peer Review Committee."

[fn 3] 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* are appropriate only if the reviewed firm has engaged another firm to perform its review and the reviewing firm is a sole practitioner.

[fn 4] The report of a firm that is required to be registered with and inspected by the PCAOB should be tailored here to add "applicable to engagements not subject to PCAOB permanent inspection."

Peer Reviewer's Responsibility

Our responsibility is to evaluate whether the engagements submitted for review were performed and reported on in conformity with applicable professional standards in all material respects.

An engagement review does not include reviewing the firm's system of quality ~~control~~ ***management*** and compliance therewith and, accordingly, we express no opinion or any form of assurance on that system.

Deficiencies [fn 5] **Identified in the Firm's Conformity With Professional Standards on Engagements Reviewed** [fn 6]

We noted the following deficiencies [fn 7] during our review:

1. Our review disclosed several failures to adhere to applicable professional standards in reporting on material departures from generally accepted accounting principles (GAAP) and in conforming to 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. The compilation and review engagements were in the construction and manufacturing industries, respectively. In addition, the firm did not obtain management representation letters on review engagements.

2. During our review, we noted the firm did not modify its compilation reports on financial statements when neither the financial statements nor the footnotes noted that the statements were presented using a special purpose framework. This deficiency was noted in the firm's previous peer reviews.

3. In the construction industry compilation engagements that we reviewed, disclosures of material lease obligations as required by GAAP were not included in the financial statements, and the omissions were not disclosed in the accountant's reports.

4. During our review of the firm's engagements to prepare financial statements, we noted the firm did not issue a disclaimer that made clear no assurance was provided

[fn 5] This wording should be tailored to indicate a single deficiency, when applicable.

[fn 6] This wording should be tailored to indicate a single engagement reviewed, when applicable.

[fn 7] The deficiencies provided are examples for illustrative purposes only.

on the financial statements and also did not indicate that no assurance was provided on each page of the financial statements.

Conclusion

Because of the deficiencies previously described, we concluded that all the engagements submitted for review by XYZ & Co. [fn 8] issued with periods ending during the year ended June 30, 20XX, were not performed and reported on in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)*, or *fail*. XYZ & Co. has received a peer review rating of *fail*.

[*Name of review captain's firm on firm-on-firm review or association-formed review team*]

[*or*]

[*Name*], Review Captain [*for committee-appointed review team review*]

[fn 8] The report of a firm that is required to be registered with and inspected by the PCAOB should be tailored here to add "applicable to engagements not subject to PCAOB permanent inspection."

PR-C Section 300, *General Principles and Responsibilities for Reviewed Firms*

[Paragraphs .01–.08 are unchanged.]

Licensure

.09 It is the reviewed firm's responsibility to understand and comply with its licensing requirements. Therefore, it should be prepared to respond to the reviewer's inquiries and requests for documentation. This is also important for out-of-state firm and individual licenses when licensing requirements may be more difficult to identify and understand. ***(Ref: par. .A3)***

Written Representations

.10 Written representations should be provided to the captain on firm letterhead from members of management of the firm whom the captain or AE 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~~ ***management***. (Ref: par. .A***4***~~3~~–.A***5***~~4~~)

.11 The written representations should be in the form of a representation letter on firm letterhead, addressed to the captain, and signed by a member of management described in paragraph .10, as of the date of the peer review report. (Ref: par. .A***6***~~5~~)

Cooperating and Complying With the Requirements of the Program

.12 A firm should cooperate with the reviewer, AE, and AICPA Peer Review Board (the board) in all matters related to the program. (Ref: par. .A***7***~~6~~–.A***8***~~7~~)

.13 A firm should ensure its peer review is submitted in compliance with the requirements of the program.

a. A firm is considered not cooperating and its enrollment is subject to termination from the program for reasons including, but not limited to, the following: (Ref: par. .A***8***~~7~~)

i. Once the review has commenced, not responding to inquiries or providing information necessary to ensure the review is accepted and completed

ii. Not providing documentation including the representation letter, ~~quality control documents,~~ engagement working papers, and all ***documentation related to each***~~elements~~ ***component*** of the firm's system of quality ~~control~~ ***management***

iii. Not responding to matters for further consideration (MFCs) or findings for further consideration (FFCs) timely

iv. Limiting access to ~~offices,~~ personnel~~,~~ or other once the review has commenced

v. Not facilitating the arrangement for the exit conference on a timely basis

vi. Failing to timely file a letter of response, if applicable

vii. Failing to cooperate during oversight

viii. Failing to timely agree to and complete required corrective actions or implementation plans

ix. Failing to ensure that the firm's peer review is submitted to the AE timely

b. A firm is considered not complying with the requirements of the program and its enrollment is subject to termination from the program for reasons including, but not limited to, the following:

i. Withholding information significant to the peer review (Ref: par. .A***9***~~8~~)

ii. Failing to correct deficiencies or significant deficiencies after consecutive non-pass (*pass with deficiencies* or *fail*) peer review reports (Ref: par. .A***10***~~9~~)

iii. Failing to correct deficiencies or significant deficiencies after consecutive corrective actions required by the committee on the same peer review

iv. Receiving a peer review report with deficiencies or significant deficiencies that indicate the firm is so seriously deficient in its performance that the committee believes educational and remedial corrective actions or implementation plans would not be adequate

v. Failing to provide the AE with a substantive response, and the firm does not revise its response or provides additional responses that are not substantive as determined by the AE (Ref: par. .A***11***~~10~~)

vi. Failing to provide substantive responses during the AE's process of determining if information provided by a firm was erroneous or omitted, which results in a significant change in the planning, performance, evaluation of results, or peer review report (Ref: par. .A***12***~~11~~)

vii. Failing to timely notify the AE that it is performing a type of engagement or engagement in an industry that the firm had previously represented by written communication to the AE that it was no longer performing and had no plans to perform, in response to a related corrective action or implementation plan and the corrective action or implementation plan was eliminated by the AE based on that representation

[Paragraphs .14–.15 are unchanged.]

Reenrollment in the Program

.16 To reenroll in the program, a firm should submit a request to reenroll in the program through an AE. If the firm was dropped or terminated from the program, the firm should address and remediate the circumstances that caused the firm to be dropped or terminated to be considered for reenrollment in the program. Common criteria for reenrollment include, but are not limited to, submitting evidence to the AE or hearing panel that demonstrates the following: (Ref: par. .A***13***~~12~~–.A***15***~~14~~)

a. Completion of the requested action in compliance with the requirements of the program

b. Changes in the firm's system of quality ~~control~~ ***management*** (such as personnel changes or procedural changes, methodologies to identify the complete population of engagements performed, access to technical resources or membership in quality centers, and voluntary changes in the practice or types of industries or engagements performed)

c. Competency through completion of relevant CPE, training, or competency assessments

d. Assessment of quality in the performance of engagements through internal or external monitoring results (such as pre-issuance reviews, post-issuance reviews, and internal inspections that reflect that engagements are materially performed and reported on in conformity with applicable professional standards)

[Paragraph .17 is unchanged.]

Publicizing Peer Review *Results and Other Objective* Information

.18 The firm should not publicize the results of the review or distribute copies of the peer review report to its personnel, clients, or others until the date of acceptance. (Ref: par. .A***16***~~15~~–.A***21***~~20~~)

[Paragraphs .19–.25 are unchanged.]

Application and Other Explanatory Material

[Paragraphs .A1–.A2 are unchanged.]

Licensure (Ref: par. .09)

.A3 For purposes of out-of-state firm and individual licensure, some state boards of accountancy may require firms to provide access to firms' peer review results and other objective peer review information through facilitated state board access (FSBA). (Ref: par. .A17–.A18)

Written Representations (Ref: par. .10–.11)

[Paragraph .A3 is renumbered to paragraph .A4. The content is unchanged.]

.A*54* Members of management responsible for and knowledgeable about the required representations normally include the managing partner and partner in charge of the firm's system of quality ~~control~~ ***management***.

[Paragraphs .A5–.A14 are renumbered to .A6–.A15. The content is unchanged.]

Publicizing Peer Review *Results and Other Objective* Information (Ref: par. .18)

.A*16*~~15~~ The firm's AE and AICPA staff may disclose to third parties the following information:

a. The firm's name and address

b. Whether the firm is enrolled in the program

c. The date of acceptance and period covered by the firm's most recently accepted peer review

d. The most recent date that the firm's enrollment in the program has been dropped or terminated, if applicable

This information is available in the AICPA public file for all firms enrolled in the program and for a period of 42 months after a firm is no longer enrolled.

.A*17*~~16~~ The firm may authorize its AE or AICPA staff to make its peer review results available to the public or to state boards of accountancy. Peer review results include, as applicable, the following:

a. Peer review report

b. Letter of response

c. Acceptance letter

d. Letters signed by the reviewed firm indicating that the peer review documents have been accepted with the understanding that the reviewed firm agrees to take certain actions

e. Letter signed by the AE notifying the reviewed firm that certain required actions have been completed

The authorization ordinarily occurs during the firm's peer review scheduling process when the firm may choose not to opt out of the program's process for voluntary disclosure through ~~Facilitated State Board Access (~~FSBA~~)~~. ***A firm may not be permitted to opt out when its participation in FSBA is a licensing requirement in the state where its main office is located. A firm may also need to comply with specific FSBA requirements in other licensing jurisdictions where it practices.***

.A18 The firm may authorize its AE or AICPA staff to make other documents and objective information available to state boards of accountancy through FSBA, in conjunction with peer review results described in paragraph .A17. Objective peer review information includes, as applicable, the following:

- **a.** ***The most current peer review program enrollment or reenrollment letter (if dated on or after January 1, 2020)***
- **b.** ***Firm representation to the AE that it has not performed engagements subject to peer review in the last 12 months***
- **c.** ***Identification of the due date of the current peer review and due date on any open corrective actions***
- **d.** ***Peer review or corrective action extension letters***
- **e.** ***Letter acknowledging the peer review was scheduled***
- **f.** ***Estimated dates of the peer review commencement and presentation to a report acceptance body***

The authorization ordinarily occurs during the firm's peer review scheduling process when the firm may choose not to opt out of the program's process for voluntary disclosure through FSBA. A firm may not be permitted to opt out of FSBA when its participation in FSBA is a licensing requirement in the state where its main office is located. A firm may also need to comply with specific FSBA requirements in other licensing jurisdictions where it practices.

[Paragraphs .A17–.A20 are renumbered to .A19–.A22. The content is unchanged.]

Acquisitions and Divestitures (Ref: par. .19)

.A*23*~~21~~ 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~~ ***management*** for reports issued under the firm's name during that year.

[Paragraphs .A22–.A24 are renumbered to .A24–.A26. The content is unchanged.]

PR-C Section 310, *General Principles and Responsibilities for Reviewed Firms — System Reviews*

[Paragraphs .01–.05 are unchanged.]

Requirements

Planning

.06 The firm should make the following information available to the reviewer:

a. Information regarding the firm's audit and accounting practice for each engagement with a period end date during the peer review year (or each financial forecast, financial projection, or agreed-upon procedures engagement with a report dated during the peer review year) and that was issued by the commencement date of the review to allow the reviewer to be able to identify

i. the level of service,

ii. the number of audit or accounting hours (actual, if available, or estimated),

iii. the engagement partner,

iv. the industry,

v. whether an engagement was an initial engagement,

vi. the office (if applicable), and

vii. whether an engagement was a must-select or must-cover engagement (if applicable) (Ref: par. .A4)

b. A list of firm personnel (Ref: par. .A5)

c. Responses to inquiries about the areas to be addressed in the written representations

d. The firm's prior

i. peer review report,

ii. letter of response (if applicable),

iii. letter of acceptance,

iv. findings for further consideration (FFCs) (if applicable), and

v. representation letter

e. The firm's quality ~~control~~ ***management*** documentation (Ref: par. .A6)

[Paragraphs .07–.08 are unchanged.]

Scope Limitations

.09 The firm should notify the team captain and the AE, prior to the commencement of the review, if it intends to exclude an engagement or ***components***~~elements~~ of the firm's system of quality ~~control~~ ***management***. This notification should indicate

a. its plans to exclude one or more engagements or aspects of functional areas from the peer review selection process,

b. the reasons for the exclusion, and

c. that it is requesting a waiver from the AE for the exclusion.

Testing Compliance With the Firm's System of Quality ~~Control~~*Management*

[Paragraph .10 is unchanged.]

Responding to Matters, Findings, Deficiencies, and Significant Deficiencies

[Paragraphs .11–.13 are unchanged.]

.14 The firm's responses to findings, deficiencies, or significant deficiencies should (Ref: par. .A14–.A19)

a. include the firm's actions taken or planned to remediate the findings or deficiencies in the firm's system of quality ~~control~~ ***management*** and nonconforming engagements, if applicable, including

i. timing of the remediation and

ii. additional procedures to ensure the finding or deficiency is not repeated in the future.

b. be feasible, genuine, and comprehensive.

c. be addressed to the AE's peer review committee (committee) in a letter of response, if applicable.

d. be dated as of the exit conference date in a letter of response, if applicable.

e. be on firm letterhead in a letter of response, if applicable.

The reviewer should review documentation of any action taken by the firm and consider whether the action is appropriate.

[Paragraph .15 is unchanged.]

Written Representations

.16 The firm should provide to the team 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. .A22–.A23)

a. Management has fulfilled its responsibility for the design***, implementation, and operating effectiveness*** of ~~and compliance with~~ a system of quality ~~control~~ ***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. ***(Ref: par. .A24)***

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 team 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 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 [*Matter for Further Consideration Form, Finding for Further Consideration Form, or Letter of Response*], if applicable.

f. Management understands the intended uses and limitations of the quality ~~control~~ ***management*** materials it has developed or adopted. Management has tailored and augmented the materials as appropriate such that the quality ~~control~~ ***management*** materials encompass guidance that is sufficient to assist it in conforming with professional standards (including the Statements on Quality ~~Control~~***Management*** Standards) applicable to its accounting and auditing practice.

g. Management has responded fully and truthfully to all of the team captain's inquiries.

h. Management has provided the team captain with all relevant information, which included

i. all engagements with periods ending during (or, for financial forecasts or projections and agreed-upon procedures engagements, report dates in) the year under review.

ii. all must-select engagements, as applicable.

i. Management has disclosed to the team captain if the firm performed must-select engagements for the period covered by the peer review, and, if so, at least one of each must-select engagement that was performed was selected and reviewed by the peer reviewer.

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 team 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, audit, 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–.18 are unchanged.]

Application and Other Explanatory Material

Scope of This Section (Ref: par. .01–.02)

[Paragraphs .A1–.A2 are unchanged.]

Objective (Ref: par. .04)

.A3 The reviewed firm may benefit from knowing the reviewer's objectives in conducting a system review, which are to do the following:

a. Obtain reasonable assurance that the reviewed firm's system of quality ~~control~~ ***management*** for its accounting and auditing practice has been designed and complied with to provide the firm with reasonable assurance of performing or reporting in conformity with the requirements of applicable professional standards in all material respects.

b. Report on the reviewed firm's system of quality ~~control~~ ***management*** and communicate as required by the Standards for Performing and Reporting on Peer Reviews (the standards)

established by the Peer Review Board of the American Institute of Certified Public Accountants, in accordance with the reviewer's conclusions.

Planning (Ref: par. .06–.07)

[Paragraphs .A4–.A5 are unchanged.]

.A6 Quality ~~control~~ ***management*** documentation ~~will likely~~ include***s established quality objectives, identification and assessment of risks to achievement of the quality objectives, the design and implementation of responses to address the quality risks, and firm management's (at least annual) evaluation of the firm's system of quality management.*** ~~t~~***T***he firm's ~~quality control~~document***ation provides***~~,~~ evidence of the performance of the firm's monitoring ***and remediation*** procedures, ~~and~~ CPE documentation, ~~among~~ ***and*** other ***support for other components of the firm's system of quality management***~~documents~~. Upon reviewing such documentation, the reviewer may determine that the firm's current-year ~~internal~~ monitoring ***and remediation*** procedures could enable the reviewer to reduce the extent of the peer review procedures.

.A7 To obtain an understanding of the firm's accounting and auditing practice and system of quality ~~control~~ ***management***, the reviewer will do the following:

a. Inquire of appropriate management and other personnel**.**

b. Review the firm's internal policies and procedures**.**

c. Review the firm's quality ~~control~~ ***management*** documentation ***as described in paragraph .A6.***

d. Inquire of the firm regarding ***components***~~elements~~ of the system of quality ~~control~~ ***management*** residing outside of the firm. (Ref: par. .A***8***~~11~~)

e. Complete the applicable quality ~~control~~ ***management*** checklists**.**

.A8 Examples of ***components***~~elements~~ ***of the system of quality management*** that could reside outside of the firm include, but are not limited to, membership in associations, joint ventures, non-CPA-owned entities, alternative practice structures, arrangements with outside consultants, third-party quality ~~control~~ ***management*** materials, or CPE.

Engagement Selection (Ref: par. .08)

.A9 To obtain reasonable assurance that the firm is complying with its quality ~~control~~ ***management*** policies and procedures and applicable professional standards, the reviewer will review a reasonable cross section of the firm's accounting and auditing engagements, with greater emphasis on those portions of the practice with higher combined assessed levels of inherent and control risk.

Testing Compliance With the Firm's System of Quality ~~Control~~*Management* (Ref: par. .10)

.A10 To test the firm's compliance with its system of quality ~~control~~ ***management*** and applicable professional standards, the reviewer will do the following:

a. Review and evaluate highest-risk areas on selected engagements, including accounting and auditing documentation, and reports.

b. Interview firm personnel at various levels to assess their understanding of, and compliance with, the firm's system of quality ~~control~~ ***management***.

c. Review evidence to determine whether the firm has complied with its policies and procedures for each ~~element~~***component*** of its system of quality ~~control~~ ***management***, which may include evidence since the previous peer review. (Ref: par. .A28 of section 210)

d. Review other evidence as appropriate. (Ref: par. .A29–.A30 of section 210)

e. Complete the applicable quality ~~control~~ ***management*** checklists.

[Paragraphs .A11–.A12 are unchanged.]

Responding to Matters, Findings, Deficiencies, and Significant Deficiencies (Ref: par. .11–.15)

[Paragraph .A13 is unchanged.]

.A14 The purpose of the firm's response on the FFC form or in the letter of response is for a firm to document the specific actions that will be taken to correct findings, deficiencies, or significant deficiencies identified by the reviewer and to enhance the firm's current system of quality ~~control~~ ***management***.

[Paragraphs .A15–.A19 are unchanged.]

.A20 If the firm is unable to determine appropriate remediation of weaknesses in its system of quality ~~control~~ ***management*** and nonconforming engagements, if applicable, prior to the exit conference, the firm's response may indicate interim steps that have been taken and confirm its intent to remediate when an appropriate response is determined. In these situations, the RAB considering the review will ordinarily assign an implementation plan or corrective action for the firm to provide its final remediation.

[Paragraph .A21 is unchanged.]

Written Representations (Ref: par. .16–.17)

[Paragraphs .A22–.A23 are unchanged.]

.A24 Representation by management that it has fulfilled its responsibility for the design, implementation, and operating effectiveness of 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 firm has received a non-pass report rating, 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."

Subsequent Events (Ref: par. .18)

[Paragraphs .A24–.A25 are renumbered to .A25–.A26. The content is unchanged.]

Exhibit A — Illustrative Representation Letter

.A*27*~~26~~ The following illustrative letter includes written representations that are required by paragraphs .16 and .17 of this PR-C section. The firm may tailor the language in this illustration and refer to attachments to the letter as long as adequate representations pertaining to the matters previously discussed, as applicable, are included to the satisfaction of the team captain.

[*Entity Letterhead*]

[*Date*]

To [*Name of Team Captain*]:

We are providing this letter in connection with the peer review of the system of quality ~~control~~ ***management*** for the accounting and auditing practice of [*name of firm*] [*applicable to engagements not subject to PCAOB permanent inspection* (if applicable)[fn 1]] as of the date of this letter and for the year ended June 30, 20XX.

Management has fulfilled its responsibility for the design***, implementation, and operating effectiveness*** of ~~and compliance with~~ a system of quality ~~control~~ ***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.***[fn 2]***

We understand that we are responsible for complying with the rules and regulations of state boards of accountancy and other regulators. We have [*no knowledge of*][*disclosed to you all known*] situations in which [*name of firm*] or its personnel have not complied with the rules and regulations of state board(s) 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.

Management has responded fully and truthfully to all of the team captain's inquiries and w~~W~~e have provided to the team captain a list of all engagements with periods ending during (or, for financial forecasts or projections and agreed-upon procedures engagements, report dates in) the year under review, regardless of whether issued as of the date of this letter. This list appropriately identified and included, but was not limited to, all engagements performed under *Government Auditing Standards*, including compliance audits under the Single Audit Act, audits of employee benefit plans, audits performed under FDICIA, and examinations of service organizations (SOC 1® and SOC 2® engagements), as applicable. We understand that failure to properly include engagements subject to the scope of the peer review could be deemed as failure to cooperate. We also understand this

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fn 1 The representation letter of a firm who is required to be registered with and inspected by the PCAOB should be tailored here to add "applicable to engagements not subject to PCAOB permanent inspection."

fn 2 The representation by management regarding its responsibility for designing, implementing, and operating its system of quality management may be tailored according to paragraph .A24 when any indication exists that management misunderstands those responsibilities or changes in circumstances make it appropriate to tailor the representation.

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, and enforcement body.

We have completed the following must-select engagements and issued their respective reports. To the best of our knowledge and belief, the peer review team has selected and reviewed at least one of each category:

1. Engagements performed under *Government Auditing Standards*
2. Compliance audits under the Single Audit Act
3. Audits of employee benefit plans
4. Audits performed under FDICIA
5. Examinations of service organizations (SOC 1 and SOC 2 engagements)]

[*We confirm that it is our responsibility to remediate nonconforming engagements as stated by the firm in the* [Matter for Further Consideration, Finding for Further Consideration, or Letter of Response (as applicable)].

We have discussed significant issues from reports and communications from regulatory, monitoring, and enforcement bodies with the team captain, if applicable. We have also provided the team captain with any other information requested, including communications or summaries of communications from regulatory, monitoring, or enforcement bodies relating to allegations or investigations of deficiencies in the conduct of an accounting, audit, or attestation engagement performed and reported on by the firm, whether the matter relates to the firm or its personnel, within three years preceding the current peer review year-end. We confirm, to the best of our knowledge and belief, that there are no known restrictions or limitations 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.

We understand the intended uses and limitations of the quality ~~control~~ ***management*** materials we have developed or adopted. We have tailored and augmented the materials as appropriate such that the quality ~~control~~ ***management*** materials encompass guidance that is sufficient to assist us in conforming with professional standards (including the Statements on Quality ~~Control~~***Management*** Standards) applicable to our accounting and auditing practice in all material respects.

Sincerely,

[*Name of Reviewed Firm Representative(s)*] [fn 32]

[fn 32] Firm representatives are members of management, as described in paragraph .10 in section 300, *General Principles and Responsibilities for Reviewed Firms*.

Exhibit B — Illustrative Examples of a Firm's Letter of Response

.A*28~~27~~* This exhibit contains various illustrations of a firm's letter of response to a peer review report rating of *pass with deficiencies* or *fail* (system reviews).

Illustration 1 — A Firm's Letter of Response to a Report on the Firm's System of Quality ~~Control~~*Management* With a Peer Review Rating of Pass With Deficiencies

Illustration 2 — A Firm's Letter of Response to a Report on the Firm's System of Quality ~~Control~~*Management* With a Peer Review Rating of Pass With Deficiencies With a Scope Limitation

Illustration 3 — A Firm's Letter of Response to a Report on the Firm's System of Quality ~~Control~~*Management* With a Peer Review Rating of Fail

Illustration 4 — A Firm's Letter of Response to a Report on the Firm's System of Quality ~~Control~~*Management* With a Peer Review Rating of Fail With a Scope Limitation

Illustration 1 — A Firm's Letter of Response to a Report on the Firm's System of Quality ~~Control~~*Management* With a Peer Review Rating of Pass With Deficiencies

[*Reviewed firm's letterhead*]

[*Date of the report*]

[*Addressed to the peer review committee of the administering entity*] [fn 1]

Ladies and Gentlemen:

This letter represents our [fn 2] response to the report issued in connection with the peer review of the firm's system of quality ~~control~~ ***management*** for the accounting and auditing practice in effect for the year ended [*peer review year-end date*]. The remedial actions discussed in this letter will be monitored to ensure that they are effectively implemented as part of our system of quality ~~control~~ ***management***.

1. [fn 3] The firm modified its quality ~~control~~ ***management*** policies and procedures to include monitoring of firm personnel's compliance with regulatory and organization membership requirements. The importance of meeting these CPE requirements was discussed in a recent training session held in connection with a recent firm-wide staff meeting. Additionally, the training session included sufficient Yellow Book CPE such that all firm personnel have met the regulatory requirements. The impact to the Yellow Book audits of failure to take sufficient CPE timely is currently being discussed with the Government Accountability Office (GAO) and the firm will remediate as necessary based on that discussion.

2. In addition, at that training session, the importance of proper use of the firm's checklists appropriate to the industry of the engagement being performed was discussed. We discussed the proper resolution of points or topics unfamiliar to the individual completing the checklist or those reviewing its completion. The firm's CPE plan for partners and managers now includes annual updates on industry-specific issues. The omitted procedures have been performed.

These remedial actions will also be emphasized in our monitoring procedures and internal inspection.

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

[fn 1] The response of a firm whose review is administered by the National Peer Review Committee should be addressed as follows: "To the National Peer Review Committee."

[fn 2] The response should use the singular *I, me,* and *my* only when the reviewed firm is a sole practitioner.

[fn 3] The numbering of responses to coincide with the numbered comments in the report is optional.

Sincerely,

[*Name(s) of reviewed firm representative(s)*] [fn 4]

[fn 4] These are members of management as described in paragraph .25 of section 200, *General Principles and Responsibilities for Reviewers*.

Illustration 2 — A Firm's Letter of Response to a Report on the Firm's System of Quality ~~Control~~*Management* With a Peer Review Rating of Pass With Deficiencies With a Scope Limitation

[*Reviewed firm's letterhead*]

[*Date of the report*]

[*Addressed to the peer review committee of the administering entity*] [fn 1]

Ladies and Gentlemen:

This letter represents our [fn 2] response to the report issued in connection with the peer review of the firm's system of quality ~~control~~ ***management*** for the accounting and auditing practice in effect for the year ended [*peer review year-end date*].

1. [fn 3] Due to circumstances that we deemed appropriate, we notified the peer reviewer that he would be unable to select our only audit subject to *Government Auditing Standards* in the peer review. This was an initial engagement and an engagement performed under *Government Auditing Standards*, so there were no previous audits for the reviewer to select. We have considered the consequences of noncompliance related to this matter. We understand that, until our firm's most recently completed peer review includes selection of an engagement performed under *Government Auditing Standards,* our audit reports for such engagements will need to include an exception regarding our lack of compliance with peer review requirements.

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

Sincerely,

[*Name(s) of reviewed firm representative(s)*] [fn 4]

[fn 1] The response of a firm whose review is administered by the National Peer Review Committee should be addressed as follows: "To the National Peer Review Committee."

[fn 2] The response should use the singular *I, me,* and *my* only when the reviewed firm is a sole practitioner.

[fn 3] The numbering of responses to coincide with the numbered comments in the report is optional.

[fn 4] These are members of management as described in paragraph .25 of section 200.

Illustration 3 — A Firm's Letter of Response to a Report on the Firm's System of Quality ~~Control~~*Management* With a Peer Review Rating of Fail

[*Reviewed firm's letterhead*]

[*Date of the report*]

[*Addressed to the peer review committee of the administering entity*] [fn 1]

Ladies and Gentlemen:

This letter represents our [fn 2] response to the report issued in connection with the peer review of the firm's system of quality ~~control~~ ***management*** for the accounting and auditing practice in effect for the year ended [*peer review year-end date*]. The firm is committed to providing clear, consistent, and frequent actions and messages from all levels of the firm's management to emphasize the firm's commitment to quality. The remedial actions discussed in this letter will be monitored to ensure that they are effectively implemented as part of our system of quality ~~control~~ ***management***.

1. [fn 3] The firm modified its quality ~~control~~ ***management*** policies and procedures to require the following:

    a. Use of practice aids to document procedures performed to assess competency for undertaking new engagements. The practice aid is designed to ensure that the firm (1) is competent to perform the engagement and has the capabilities, including time and resources, to do so; (2) can comply with legal and relevant ethical requirements; and (3) has considered the integrity of the client.

    b. Inclusion of a CPE plan for obtaining relevant training to prepare for engagements in new industries or service areas in the client acceptance file.

2. The firm has recalled the audit report for the employee benefit plan audit and has hired a third party to perform a pre-issuance review prior to reissuing our report.

3. We have joined the AICPA Governmental Audit Quality Center and Employee Benefit Plan Audit Quality Center. The firm modified its quality ~~control~~ ***management*** policies and procedures to require personnel that perform engagements in these specialized areas to attend at least eight hours of CPE

[fn 1] The response of a firm whose review is administered by the National Peer Review Committee should be addressed as follows: "To the National Peer Review Committee."

[fn 2] The response should use the singular *I, me,* and *my* only when the reviewed firm is a sole practitioner.

[fn 3] The numbering of responses to coincide with the numbered comments in the report is optional.

annually in the specialized areas. We are committed to promptly completing our evaluation of the audit engagements, including whether audited financial statements should be recalled and reissued to include the omitted disclosures. The omitted procedures will be performed and documentation will be added in a memo to the engagement files of the audit performed under *Government Auditing Standards* and the audits in other industries identified as not in conformity with professional standards.

4. The firm's system of quality ~~control~~ ***management*** was modified to include monitoring procedures to provide it with reasonable assurance that the firm's policies and procedures relating to the system of quality ~~control~~ ***management*** are relevant, adequate, and operating effectively. Specifically, the firm will monitor compliance with all ~~functional areas~~***components*** of the system and will perform annual inspections on a sample of engagements. We intend to hire a Quality ~~Control~~***Management*** Director who will be responsible for developing and implementing our monitoring and ~~inspection~~ ***remediation*** procedures.

The results of our peer review will be discussed in a firm-wide meeting to be held on [*date of meeting*], and an emphasis on quality will be reinforced with all engagement partners and their teams.

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

Sincerely,

[*Name(s) of reviewed firm representative(s)*] [fn 4]

[fn 4] These are members of management as described in paragraph .25 of section 200.

Illustration 4 — A Firm's Letter of Response to a Report on the Firm's System of Quality ~~Control~~*Management* With a Peer Review Rating of Fail With a Scope Limitation

[*Reviewed firm's letterhead*]

[*Date of the report*]

[*Addressed to the peer review committee of the administering entity*] [fn 1]

Ladies and Gentlemen:

This letter represents our [fn 2] response to the report issued in connection with the peer review of the firm's system of quality ~~control~~ ***management*** for the accounting and auditing practice in effect for the year ended [*peer review year-end date*].

We notified our peer reviewer that he would be unable to review the engagements performed by one of our firm's four offices that divested from our firm during the peer review year. We have considered the consequences of this scope limitation on the results of our peer review.

1. [fn 3] The firm's monitoring procedures were modified to provide it with reasonable assurance that the firm's policies and procedures are relevant, adequate, and operating effectively. Specifically, the firm will monitor compliance with relevant ethical considerations and perform annual testing of a sample of personnel independence confirmations. We have contacted our attorney, clients, and applicable regulatory bodies to discuss the impact of the independence violations and will remediate the engagements as required by professional standards.

2. The firm has contacted two other accounting firms with expertise in Employee Retirement Income Security Act (ERISA) audits. We have implemented a plan for consultation with these firms for guidance in situations with which we are unfamiliar. We have also joined the AICPA Employee Benefit Plan Audit Quality Center. The omitted procedures will be performed and documentation will be added in a memo to the engagement file. We will engage one of the accounting firms to review the engagement working papers prior to finalizing the memo and to perform engagement quality ~~control~~ reviews of future employee benefit plan audits.

3. We have purchased practice aids that are specific to the industries of our clients and have instructed staff and partners on their use. At our next staff meeting on [*date of meeting*], we will emphasize the importance of proper use of the firm's practice aids. We will also discuss the proper resolution of points or topics unfamiliar to the

[fn 1] The response of a firm whose review is administered by the National Peer Review Committee should be addressed as follows: "To the National Peer Review Committee."

[fn 2] The response should use the singular *I, me,* and *my* only when the reviewed firm is a sole practitioner.

[fn 3] The numbering of responses to coincide with the numbered comments in the report is optional.

individual completing the checklist or those reviewing its completion. The firm's CPE plan for partners and managers now includes annual updates on the firm's expectations for performing and documenting audit planning considerations.

The firm is committed to strengthening its monitoring policies and procedures. We have acquired quality ~~control~~ ***management*** materials to guide the firm, and supervision of the monitoring process has been assigned to a partner. Additionally, outside assistance (as previously mentioned) has been sought, and these individuals will be available for consultation and guidance.

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

Sincerely,

[*Name(s) of reviewed firm representative(s)*] [fn 4]

[fn 4] These are members of management as described in paragraph .25 of section 200.

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 ~~and compliance with~~ a system of quality ~~control~~ ***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 ~~control~~ ***management*** materials it has developed or adopted. Management has tailored and augmented the materials as appropriate such that the quality ~~control~~ ***management*** materials encompass guidance that is sufficient to assist it in conforming with professional standards (including the Statements on Quality ~~Control~~***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*** ~~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 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–.19 are unchanged.]

Application and Other Explanatory Material

[Paragraphs .A1–.A4 are unchanged.]

.A5 The objective of the engagement selection requirements is to select ~~one engagement for each engagement partner and~~ one engagement from each level of service listed in paragraph .A3*a* for the firm***, including one engagement for each engagement partner***. Review captains will not select more engagements than necessary to meet this objective.

[Paragraphs .A6–.A15 are unchanged.]

Written Representations (Ref: par. .16–.17)

[Paragraphs .A16–.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 or implemented or is not

operating 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."

Exhibit A — Illustrative Representation Letter

.A*20~~19~~* The following illustrative letter includes written representations that are required by paragraphs .16 and .17 of this PR-C section. The firm may tailor the language in this illustration and refer to attachments to the letter as long as adequate representations pertaining to the matters previously discussed, as applicable, are included to the satisfaction of the review captain.

[*Entity Letterhead*]

[*Date of the Report*]

To [*Name of Review Captain*]:

We are providing this letter in connection with the peer review of [*name of firm*] [*applicable to engagements not subject to PCAOB permanent inspection* (if applicable)[fn 1]] as of the date of this letter and for the year ended June 30, 20XX.

Management has fulfilled its responsibility for the design***, implementation, and operating effectiveness*** of ~~and compliance with~~ a system of quality ~~control~~ ***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.***[fn 2]***

We understand that we are responsible for complying with the rules and regulations of state boards of accountancy and other regulators. We have [*no knowledge of*][*disclosed to you all known*] situations in which [*name of firm*] or its personnel have not complied with the rules and regulations of state board(s) 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 it practices for the year under review.

Management has responded fully and truthfully to all of the review captain's inquiries and w~~W~~e have provided to the review captain a list of all engagements with periods ending during (or, for financial forecasts or projections and agreed-upon procedures engagements, report dates in) the year under review, regardless of whether issued. This list included, but was not limited to, all engagements performed under *Government Auditing Standards*, audits of employee benefit plans, audits performed under FDICIA, and examinations of

[fn 1] The representation letter of a firm who is required to be registered with and inspected by the PCAOB should be tailored here to add "applicable to engagements not subject to PCAOB permanent inspection."

[fn 2] The representation by management regarding its responsibility for designing, implementing, and operating its system of quality management may be tailored according to paragraph .A19 when any indication exists that management misunderstands those responsibilities or changes in circumstances make it appropriate to tailor the representation.

service organizations (SOC 1® and SOC 2® engagements), as applicable. The firm does not perform engagements under the Statements on Auditing Standards (SASs) or *Government Auditing Standards*, examinations under the Statements on Standards for Attestation Engagements (SSAEs), or audit or examination engagements under Public Company Accounting Oversight Board (PCAOB) standards that are not subject to permanent inspection by the PCAOB. We understand that failure to properly include these engagements on the list could be deemed as failure to cooperate. We also understand this 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, and enforcement body.

[*We confirm that it is our responsibility to remediate nonconforming engagements as stated by the firm in the Letter of Response* (if applicable).]

We have discussed significant issues from reports and communications from regulatory, monitoring, and enforcement bodies with the review captain, if applicable. We have also provided the review captain with any other information requested, including communications or summaries of communications from regulatory, monitoring, or enforcement bodies relating to allegations or investigations of deficiencies in the conduct of an accounting, audit, or attestation engagement performed and reported on by the firm, whether the matter relates to the firm or its personnel, within three years preceding the current peer review year-end. We confirm that, to the best of our knowledge and belief, there are no known restrictions or limitations 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.

We understand the intended uses and limitations of the quality ~~control~~ ***management*** materials we have developed or adopted. We have tailored and augmented the materials as appropriate such that the quality ~~control~~ ***management*** materials encompass guidance that is sufficient to assist us in conforming with professional standards (including the Statements on Quality ~~Control~~***Management*** Standards) applicable to our accounting practice in all material respects.

Sincerely,

[*Name of Reviewed Firm Representative(s)*] [fn ~~32~~]

[fn ~~32~~] Firm representatives are members of management as described in paragraph .10 of section 300, *General Principles and Responsibilities for Reviewed Firms*.

Exhibit B — Illustrative Example of a Firm's Letter of Response

[Paragraph .A20 is renumbered to .A21. The content of exhibit B is unchanged.]

PR-C Section 400, *General Principles and Administration Responsibilities*

[Paragraphs .01–.07 are unchanged.]

Publicizing Peer Review *Results and Other Objective* Information

.08 Except as authorized by the reviewed firm, individuals involved in the administration of the program should disclose only the following information regarding a reviewed firm: (Ref: par. .A1 and .A11–.A***14***~~13~~)

a. The firm's name and address

b. Whether the firm is enrolled in the program

c. The date of acceptance and the period covered by the firm's most recently accepted peer review

d. The most recent date the firm's enrollment in the program has been dropped or terminated, if applicable

[Paragraphs .09–.14 are unchanged.]

CPA on Staff

Qualifications

.15 The CPA on staff should

a. be licensed to practice as a CPA.

b. be knowledgeable about the standards, administrative requirements, and processes.

c. possess relevant audit experience and current knowledge of professional standards applicable to the reviews being administered.

d. understand the significance of technical issues and the impact on reviews.

e. obtain at least 48 hours of CPE every 3 years in subjects relating to accounting, auditing, and quality ~~control~~ ***management*** with a minimum of 8 hours in any 1 year.

f. complete CPA-on-staff training that meets the requirements established by the board.

g. be proficient with technology to effectively manage the program.

h. agree to confidentiality and conflict-of-interest requirements of the program.

[Paragraphs .16–.20 are unchanged.]

Report Acceptance Body

Qualifications

.21 A RAB member should

a. be a member of the AICPA in good standing, licensed to practice as a CPA.

b. be currently involved in public practice as a partner, manager, or person with equivalent responsibilities in the accounting or auditing practice or carrying out a quality ~~control~~ ***management*** function in the member's firm. (Ref: par. .A***24***~~23~~)

c. have spent the last five years in the practice of public accounting in the accounting or auditing function.

d. be employed by or be an owner of a firm that has received a report with a peer review rating of *pass* or *pass with scope limitations* for its most recent peer review. The report should have been accepted timely. (Ref: par. .A***25***~~24~~–.A***26***~~25~~)

e. complete RAB member training that meets the requirements established by the board.

f. agree to confidentiality and conflict-of-interest requirements of the program.

[Paragraphs .22–.24 are unchanged.]

.25 If a RAB meeting includes a third party to meet the requirement for must-select experience discussed in paragraph .24, that individual should meet the following qualifications:

a. Be a member of the AICPA in good standing, licensed to practice as a CPA, and employed by or an owner of a firm enrolled in the program.

b. Be currently involved in public practice in the must-select engagements as a partner, manager, or person with equivalent supervisory responsibilities or carrying out a quality ~~control~~ ***management*** function in the individual's firm.

c. Be employed by or an owner of a firm that has received a report with a peer review rating of *pass* or *pass with scope limitations* for its most recent system review. The report should have been accepted timely. (Ref: par. .A***30***~~29~~)

d. Agree to confidentiality and conflict-of-interest requirements of the program.

[Paragraphs .26–.36 are unchanged.]

.37 After evaluation, the firm should be referred to the committee or board if any of the following apply:

a. It is evident the firm did not implement the actions in its letters of response or complete corrective actions required to date.

b. Deficiencies in previous peer reviews are repeated in the current peer review.

c. The firm has not made attempts to appropriately design or comply with its system of quality ~~control~~ ***management***.

(See appendix A.)

[Paragraphs .38–.44 are unchanged.]

Technical Reviewer

Qualifications

.45 A technical reviewer should

a. be a member of the AICPA in good standing, licensed to practice as a CPA.

b. complete initial and ongoing peer review captain training that meets the requirements established by the board within 12 months preceding the commencement of the technical review. (Ref: par. .A***41***~~40~~)

c. have an appropriate level of accounting and auditing knowledge and experience suitable for the work performed. (Ref: par. .A***42***~~41~~)

d. complete initial technical reviewer training that meets the requirements established by the board within 12 months before serving as a technical reviewer and complete or attend one of the following every calendar year thereafter:

i. A technical reviewer update training course developed by the AICPA

ii. The annual AICPA peer review conference

e. obtain at least 48 hours of AICPA-required CPE every 3 years in subjects relating to accounting, auditing, and quality ~~control~~ ***management***, with a minimum of 8 hours in any 1 year.

f. obtain at least 8 hours of CPE every 2 years in subjects related to single audits~~,~~ ***or attend the governmental optional session of the Peer Review Conference in each of a two-year period,*** if performing the technical review of a peer review that includes single audit engagements.

g. complete technical reviewer training specifically for single audit engagements prior to performing the technical reviewer's first technical review of peer review documents for a single audit engagement. (Ref: par. .A***43***~~42~~)

h. annually participate in a peer review that is equivalent to the highest level of technical review performed. Participation includes the following: (Ref: par. .A***44***~~43~~)

i. Reviewing and discussing the planning and scope of the peer review with the captain

ii. Reviewing the engagement checklists completed by the review team

iii. Attending meetings or participating in conference calls between the reviewer and reviewed firm to discuss issues encountered during the peer review

iv. Attending the closing meeting and the exit conference

[Paragraphs .46–.54 are unchanged.]

Application and Other Explanatory Material

[Paragraphs .A1–.A10 are unchanged.]

Publicizing Peer Review *Results and Other Objective* Information (Ref: par. .08–.09)

.A11 A firm may be a voluntary member of one of the AICPA's audit quality centers or sections that requires, as a condition of membership, that certain peer review documents be open to public inspection. Other firms may voluntarily instruct their AEs to make the peer review results available to certain other state boards of accountancy. In these cases, the firm permits the AEs to make its peer review results available to the public or to state boards of accountancy. Peer review results include, as applicable, the following:

a. Peer review report

b. Letter of response

c. Acceptance letter

d. Letters acknowledged by the reviewed firm indicating that the peer review documents have been accepted with the understanding that the reviewed firm agrees to take certain actions

e. Letters notifying the reviewed firm that certain required actions have been completed

The authorization ordinarily occurs during the firm's peer review scheduling process when the firm may choose not to opt out of the program's process for voluntary disclosure through facilitated state board access (FSBA). A firm may not be permitted to opt out when its participation in FSBA is a licensing requirement in the state where its main office is located. A firm may also need to comply with specific FSBA requirements in other licensing jurisdictions where it practices.

.A12 The firm may authorize its AE or AICPA staff to make other documents and objective information available to state boards of accountancy through FSBA, in conjunction with peer

review results described in paragraph .A11. Objective peer review information includes, as applicable, the following:

- **a.** ***The most current peer review program enrollment or reenrollment letter (if dated on or after January 1, 2020)***
- **b.** ***Firm representation to the administering entity that it has not performed engagements subject to peer review in the last 12 months***
- **c.** ***Identification of the due date of the current peer review and due date on any open corrective actions***
- **d.** ***Peer review or corrective action extension letters***
- **e.** ***Letter acknowledging the peer review was scheduled***
- **f.** ***Estimated dates of the peer review commencement and presentation to a RAB***

The authorization ordinarily occurs during the firm's peer review scheduling process when the firm may choose not to opt out of the program's process for voluntary disclosure through FSBA. A firm may not be permitted to opt out of FSBA when its participation in FSBA is a licensing requirement in the state where its main office is located. A firm may also need to comply with specific FSBA requirements in other licensing jurisdictions where it practices.

[Paragraphs .A12–.A26 are renumbered to .A13–.A27. The content is unchanged.]

.A27~~27~~28 ~~Current experience is described in paragraph .A21 of section 200.~~ ***The AE is responsible for establishing policies and procedures that address RAB composition and will consult with AICPA staff when circumstances come to the AE's attention that bring into question whether a RAB member has the appropriate experience. A RAB member may obtain or demonstrate current experience by doing one of the following:***

- **a.** ***performing or supervising an engagement with a report date within the last 18 months, or***
- **b.** ***carrying out a quality control function (as defined in paragraph .11 of section 100) within the last 18 months.***

[Paragraphs .A28–.A39 are renumbered to .A29–.A40. The content is unchanged.]

.A40~~40~~41 Peer review captain training courses are located on the Peer Review page of the AICPA website. ***In certain situations, the live captain training course may not be available for an extended period after the date a new technical reviewer is hired by an AE. In this situation, an AE may implement safeguards such as having a qualified individual (such as the CPA on staff or another experienced technical reviewer) review the work of the new technical reviewer until all parts of the initial captain training course are completed.***

[Paragraphs .A41–.A46 are renumbered to .A42–.A47. The content is unchanged.]

Exhibit A — Example Familiarity Threat Policies and Procedures

[Paragraph .A47 is renumbered to .A48. The content in exhibit A is unchanged.]

Appendix A — Failure to Cooperate or Comply With the Requirements of the Program Referral Responsibilities

[Paragraph .A48 is renumbered to .A49. The content is unchanged.]

[Paragraphs .01–.02 in appendix A are unchanged.]

Failure of a Firm to Comply With the Requirements of the Program	**Report Acceptance Body Responsibility**	**Peer Review Committee Responsibility**
.03 Not providing documentation including but not limited to the representation letter~~, quality control documents~~, engagement working papers, and all ***documentation related to each*** ~~elements~~***component*** of the firm's system of quality ~~control~~ ***management***	Referral to board hearing panel must be supported by simple majority vote.	No action required.

[Paragraphs .04–.19 in appendix A are unchanged.]

Appendix B — Disagreements

[Paragraph .A49 is renumbered to .A50. The content in appendix B is unchanged.]

Appendix C — Considerations for the Recall of Peer Review Documents

[Paragraph .A50 is renumbered to .A51. The content in appendix C is unchanged.]

PR-C Section 410, *The Report Acceptance Process*

[Paragraphs .01–.04 are unchanged.]

Technical Reviewer's Evaluation of System Reviews

.05 The evaluation of a system review should include consideration of the following (as applicable):

a. Peer review report and letter of response

b. Firm representation letter

c. Summary Review Memorandum

d. Scope and results of engagements selected for review

e. Matters for further consideration (MFCs)

f. Findings for further consideration (FFCs)

g. Disposition of Matters for Further Consideration (DMFC)

h. Oversight report

i. The engagement profile and the supplemental peer review checklist for single audits, which includes the explanation of "no" answers and other comments (Ref: par. .A1)

j. ***Quality management checklists and e***~~E~~xplanation of ***any*** "no" answers ~~for quality control checklists~~

k. The firm's prior

i. peer review report and letter of response,

ii. FFCs,

iii. firm representation letter, and

iv. letters detailing required corrective actions or implementation plans

l. Any other information that may affect the evaluation or results of the review

m. In addition to consideration of (*a*)–(*l*), for reviews administered by the National Peer Review Committee,

i. engagement checklists~~,~~ ***and***

~~ii. quality control checklists, and~~

ii. staff or focus group interviews

[Paragraphs .06–.10 are unchanged.]

RAB Peer Review Evaluation

.11 The AE should provide meeting materials to RAB members at least seven days in advance of the date of the RAB meeting in order to allow every RAB member adequate time to read the documents and be prepared to discuss the reviews being considered for acceptance. At a minimum, the following documents, if applicable, should be included to assist the RAB in its evaluation: (Ref: par. .A4–.A***6***~~5~~)

a. Peer review report and letter of response

b. Firm representation letter

c. Summary Review Memorandum or Review Captain Summary (for system or engagement reviews, respectively)

d. Scope and results of engagements selected for review

e. MFCs

f. FFCs

g. DMFC

h. Oversight report

i. The technical reviewer's summary and recommendations (which may be documented in the technical reviewer's checklist)

j. The firm's prior

i. peer review report and letter of response,

ii. FFCs,

iii. firm representation letter, and

iv. letters detailing required corrective actions ~~or implementation plans~~

.12 The RAB's evaluation of each peer review presented for acceptance, including those on the consent agenda, includes consideration of the technical reviewer's recommendations and the following: (Ref: par. .A***7***~~6~~–.A***8***~~7~~)

a. Whether the review was performed and reported in accordance with the standards (See section 210 or section 220 for specific requirements.)

b. Whether the reviewed firm's plan to remediate nonconforming engagements is in accordance with professional standards and, for system reviews, consideration of other weaknesses in the firm's system of quality ~~control~~ ***management*** if the firm's remediation plan is not in accordance with professional standards

c. Whether matters have been appropriately evaluated in accordance with the standards

d. Whether FFCs, the report, the firm's representation letter, and the firm's letter of response, if applicable, are in accordance with the standards

e. Whether corrective actions related to deficiencies or significant deficiencies in the report should be required (See paragraphs .07–.08 of section 420, *Corrective Actions and Implementation Plans.*)

f. Whether an implementation plan related to findings on FFCs should be required (See paragraphs .07–.08 of section 420.)

g. Whether reviewer performance feedback should be issued (See paragraphs .01–.17 of section 430, *Reviewer Monitoring and Performance*.)

[Paragraphs .13–.15 are unchanged.]

Application and Other Explanatory Material

[Paragraphs .A1–.A3 are unchanged.]

RAB Peer Review Evaluation (Ref: par. .11–.12)

[Paragraphs .A4–.A5 are unchanged.]

.A6 To assist with its evaluation of a reviewer's conclusions regarding the design, implementation, and operating effectiveness of the firm's system of quality management, the RAB may request that quality management checklists be included with the materials required by paragraph .11.

[Paragraphs .A6–.A7 are renumbered to .A7–.A8. The content is unchanged.]

Criteria for Delayed or Deferred Acceptance

Delayed Acceptance (Ref: par. .14)

.A9*8* Acceptance of a peer review may be delayed in the following situations (this list is not all-inclusive):

a. When peer review reports and letters of response

i. do not indicate that a deficiency or significant deficiency is repeated from the prior peer review,

ii. have misleading grammar or excessively ambiguous language,

iii. include misquoted professional literature,

iv. reference professional standards unrelated to the subject matter, or

v. for system reviews, do not identify the industry and level of service for any deficiencies or significant deficiencies that are industry specific or related to a nonconforming must-select engagement

b. When FFCs

i. have incorrect or missing references to the applicable professional standards;

ii. do not identify the MFC that led to the finding;

iii. incorrectly identify the type of matter;

iv. do not correctly identify whether the finding is a repeat;

v. do not describe the scenario that led to the finding;

vi. do not provide reference to the specific industry or engagement related to a nonconforming engagement, if applicable;

vii. do not have a clear description of the finding from the reviewer;

viii. are not signed by an authorized representative of the firm; or

ix. for system reviews, have incorrect or missing references to the applicable requirements of the Statements on Quality ~~Control~~***Management*** Standards

c. When MFCs

i. are not completed properly or fully or

ii. contain firm or client references

[Paragraphs .A9–.A12 are renumbered to .A10–.A13. The content is unchanged.]

.A*14*~~13~~ The RAB may also defer acceptance of a review to perform additional procedures to overcome significant concerns regarding the review or reviewer or to request revisions to other documents such as, but not limited to, the following:

a. Summary Review Memorandum

b. MFCs

c. Engagement checklists

d. Quality ~~control~~ ***management*** checklists

[Paragraphs .A14–.A15 are renumbered to .A15–.A16. The content is unchanged.]

PR-C Section 420, *Corrective Actions and Implementation Plans*

[Paragraphs .01–.08 are unchanged.]

.09 In situations in which the RAB concludes a firm should be required to complete corrective actions because of deficiencies or significant deficiencies, determining the nature of corrective actions should include the following: (Ref: par. .A5)

a. Considering the potential corrective actions in exhibit B, "Suggested Corrective Actions: Engagement Reviews," and exhibit D, "Suggested Corrective Actions: System Reviews," based on the applicable facts and circumstances

b. For repeat findings, deficiencies, or significant deficiencies, evaluating whether the firm made a genuine effort to correct the prior issue and considering whether a more rigorous or targeted requirement is appropriate (Ref: par. .A6)

c. For system reviews,

i. considering the systemic causes, pattern, pervasiveness, and relative importance to the system of quality ~~control~~ ***management*** and whether the firm's actions taken or planned to remediate the firm's system of quality ~~control~~ ***management*** appear comprehensive, genuine, and feasible; and

ii. considering prescribing actions that give the firm an opportunity to demonstrate the effectiveness of changes implemented or improvements made (Ref: par. .A7)

d. For engagement reviews, considering whether the reviewed firm has a sufficient understanding of relevant accounting or reporting matters (or both)

.10 In situations in which the RAB concludes a firm should be required to complete an implementation plan because of findings, determining the nature of the implementation plan should include the following:

a. Assigning only the allowable implementation plans in exhibit A, "Allowable Implementation Plans: Engagement Reviews," or exhibit C, "Allowable Implementation Plans: System Reviews," based on the applicable facts and circumstances

b. For repeat findings, evaluating whether the firm made a genuine effort to correct the prior issue and considering whether a more rigorous or targeted implementation plan is appropriate (Ref: par. .A6)

c. For system reviews, considering the systemic causes, pattern, pervasiveness, and relative importance of findings to the system of quality ~~control~~ ***management*** and whether the

firm's actions taken or planned to remediate the firm's system of quality ~~control~~ ***management*** appear comprehensive, genuine, and feasible

d. For engagement reviews, considering whether the reviewed firm has a sufficient understanding of relevant accounting or reporting matters (or both)

[Paragraphs .11–.15 are unchanged.]

Application and Other Explanatory Material

[Paragraphs .A1–.A10 are unchanged.]

When Corrective Actions or Implementation Plans Are Replaced, Waived, or Extended (Ref: par. .15)

.A11 The RAB may request corrective actions or implementation plans that are industry or engagement-type specific but address a firm's noncompliance with its system of quality ~~control~~ ***management*** policies and procedures. If the firm represents it will no longer perform engagements in a specific industry, the RAB may replace the original request with a new corrective action or implementation plan. For example, if the RAB required a firm to have a pre-issuance review of a for-profit entity subject to the U.S. Department of Housing and Urban Development's uniform financial reporting standards but the firm will no longer perform such engagements, the RAB may require the firm to obtain a pre-issuance review of a single audit.

[Paragraphs .A12–.A13 are unchanged.]

Exhibit A — Allowable Implementation Plans: Engagement Reviews

.A14

[The content of exhibit A is unchanged.]

Exhibit B — Suggested Corrective Actions: Engagement Reviews

.A15

[The content of exhibit B is unchanged.]

Exhibit C — Allowable Implementation Plans: System Reviews

.A16

Finding	**Allowable Implementation Plan**
Nonconforming engagements and • initial findings on a must-select industry or • repeat findings for any industry	• Require members of the firm to take specified types and amounts of CPE. • Require the firm to hire an outside party approved by the report acceptance body (RAB) to perform a pre-issuance or post-issuance review of certain types or portions of engagements. • Require the firm to hire an outside party approved by the RAB to review the firm's remediation of nonconforming engagements. • Require the firm to hire an outside party approved by the RAB to review the firm's completion of its intended remedial actions outlined in its response on the finding for further consideration (FFC) form or to evaluate the appropriateness of alternative actions. • Require the firm to hire an outside party approved by the RAB to review the firm's internal monitoring or inspection report.
Repeat findings without nonconforming engagements	• Require members of the firm to take specified types and amounts of CPE. • Require the firm to hire an outside party approved by the RAB to review the firm's internal monitoring or inspection report. • ***Require the firm to hire an outside party approved by the RAB to review the firm's completion of its intended remedial actions outlined in its response on the FFC form or to evaluate the appropriateness of alternative actions.***
Failure to possess applicable firm licenses	• Require the firm to submit proof of its valid firm licenses.

Exhibit D — Suggested Corrective Actions: System Reviews

.A17

Deficiency or Significant Deficiency	**Suggested Actions to Be Performed as Soon as Reasonably Possible**
Deficiency or significant deficiency related to engagement performance	• Require members of the firm to take specified types and amounts of CPE. • Allow firm members responsible for the applicable nonconforming engagements to pass the related AICPA advanced certificate exam, if applicable, in lieu of CPE. This option is applicable only for firms that have nonconforming engagements in certain industries that were identified in the peer review and for which a related AICPA advanced certificate exists. • Require the firm to hire an outside party approved by the report acceptance body (RAB) to perform a pre-issuance or post-issuance review of certain types or portions of engagements. • Require the firm to hire an outside party approved by the RAB to review the firm's remediation of nonconforming engagements. • Require the firm to hire an outside party approved by the RAB to review the firm's completion of its intended remedial actions as outlined in its letter of response or to evaluate the appropriateness of alternative actions. ~~Though not required, this is commonly performed by the team captain of the peer review.~~ • Require the firm to join an AICPA audit quality center applicable to the nonconforming engagements.
Deficiency or significant deficiency related to design***, implementation, or operating effectiveness*** of ***a*** ~~or noncompliance with another element~~***component other than engagement performance in*** ~~of~~ the ***firm's system of*** quality ~~control~~ ***management*** ~~system~~	• ***Require members of the firm to take specified types and amounts of CPE.*** • ***Require the firm to hire an outside party approved by the RAB to review the firm's completion of its intended remedial actions outlined in its letter of response or to evaluate the appropriateness of alternative actions.*** • Require the firm to hire an outside party approved by the RAB to review the firm's internal monitoring or inspection report. • Require the firm to hire an outside party approved by the RAB to perform a pre-issuance review of certain types or portions of engagements. • Require the relevant members of the firm to submit proof of their valid individual licenses.

Appendix A — Guidance for Outside Parties Engaged to Assist Firms in Completing Corrective Actions and Implementation Plans

.A18 This appendix contains guidance for outside parties engaged to assist firms in completing corrective actions or implementation plans required as a condition of acceptance of the firm's peer review.

Objectives

.01 The objectives of the outside party assisting a firm in the completion of corrective actions or implementation plans are to

a. objectively determine whether the firm took one or more actions the firm represented it would perform in its letter of response or response to findings for further consideration (FFCs),

b. evaluate the reviewed firm's compliance with the corrective actions or implementation plan, and

c. issue a letter that describes the procedures performed and the conclusions reached as a result of those procedures, to enable the report acceptance body (RAB) to conclude on the adequacy of the reviewed firm's corrective actions or implementation plans.

Planning

.02 The outside party should first gain an understanding of the corrective actions or implementation plans agreed to by the firm and the procedures that need to be performed by obtaining and reading

a. the acceptance letter describing the corrective actions or implementation plans required by the RAB;

b. the firm's most recent peer review report;

c. the firm's letter of response, if applicable; and

d. the FFC forms, if applicable.

.03 The outside party may confirm the appropriateness of the procedures to be performed by contacting the administering entity's (AE's) peer review committee, its RAB, or the technical reviewer. If unsure who to contact, the outside party may contact the AICPA.

Procedures

.04 The outside party should perform procedures outlined in the acceptance letter while considering the elements required to be reported, which are outlined in the subsequent section.

.05 The outside party should discuss the procedures performed and conclusions reached as a result of those procedures with the reviewed firm. During those discussions, the outside party should ask whether the firm plans to implement further corrective actions to address any deficiencies or significant deficiencies or take additional steps to address any findings noted during the outside party's procedures because they will likely be mentioned in the outside party's letter or report.

Reporting

.06 The outside party should draft a letter or report to the RAB describing the procedures performed and conclusions reached. The letter or report should

a. be issued on the letterhead of the outside party's firm,

b. be addressed to the AE's RAB with a copy to the reviewed firm, and

c. include the following elements:

i. A description of the corrective actions or implementation plans required by the RAB

ii. A description of the representations made by the reviewed firm regarding the changes made by the firm since its most recent peer review

iii. A description of the procedures performed by the outside party, including the period ends of any engagements reviewed or the report dates for financial forecasts, projections, or agreed-upon procedures engagements

iv. A summary of the results of the outside party's procedures, including a description of any representations made by the reviewed firm regarding further planned actions and the outside party's comments on the appropriateness of those actions

v. A statement that the letter or report is intended for limited distribution to the RAB and the reviewed firm and is not intended as a substitute or replacement for the peer review documents issued on the firm's peer review

vi. Information enabling the RAB to evaluate whether the firm has improved

vii. For system reviews, recommendations of additional actions if the outside party believes the results reveal continued weaknesses in the reviewed firm's system of quality ~~control~~ ***management***

Illustrative Letters

.07 The following letters are for illustrative purposes only. It is recommended, but not required, that the outside party adopt the form of these letters and tailor them to describe the conclusions reached based on the specific procedures performed.

SAMPLE LETTER ON AN OUTSIDE PARTY'S REVIEW OF A FIRM'S REMEDIAL ACTIONS — CORRECTIVE ACTIONS

[*Outside Party's Firm Letterhead*]

May 15, 20XX

[*Name and Address of the Report Acceptance Body*]

Dear Committee Members:

This letter is written to assist [*reviewed firm's name*] in complying with certain actions the firm voluntarily agreed to take in connection with the [*name of the report acceptance body*]'s consideration of acceptance of its 20XX peer review report and response thereto.

The [*name of the administering entity's peer review committee or its report acceptance body*] accepted the firm's 20XX peer review documents with the understanding that the firm agreed to permit an outside party, acceptable to the Committee chair, to:

a. Review the planning for the firm's 20XX inspection program in advance.
b. Review the results (with emphasis on those items noted in the 20XX peer review) and the corrective actions taken on the deficiencies or significant deficiencies noted.
c. Provide a written communication on the firm's inspection to the Committee by September 30, 20XX.

Prior to the firm performing its 20XX inspection, I performed the following procedures:

a. Reviewed a copy of the firm's 20XX peer review report, finding for further consideration (FFC) forms (if applicable), the firm's letter of response, and the acceptance letter describing the required corrective actions.
b. Reviewed the firm's inspection planning documentation.

On April 19th, 20XX, after the completion of the firm's 20XX inspection, I performed the following procedures:

a. Discussed the corrective actions described in its letter of response with the firm to determine if the actions had been fully implemented.
b. Reviewed the firm's inspection report and underlying documentation of its performance, including the engagement review checklists prepared during the inspection.
c. Reviewed the working papers of selected engagements with periods ending June 30, 20XX, that were included in the inspection and any changes in the firm's quality ~~control~~ ***management*** materials to evaluate the effectiveness of the inspection and the corrective actions implemented by the firm as a result of its 20XX peer review.
d. Discussed the inspection results and corrective action plan with the firm and evaluated the feasibility of the firm achieving its plan.

Discussed in the following sections are the results of the procedures I performed and a description of the firm's representations regarding planned corrective actions.

Procedures on the Audit of an Employee Benefit Plan Audit

The firm performed an audit of a defined benefit pension plan subject to ERISA requirements. The firm failed to test participant data and did not obtain a representation letter from its client or the plan administrator. The firm subsequently obtained the missing representation letter and performed the necessary tests. I reviewed this documentation before the firm's peer review documents were presented to the Committee. The firm's letter of response indicated it would obtain an industry-specific audit program and update its library to include AICPA Audit and Accounting Guide *Employee Benefit Plans*.

Results of the Firm's Remedial Actions Related to the Employee Benefit Plan Audit

The firm did not obtain a copy of the AICPA Audit and Accounting Guide and my review of a recently completed employee benefit plan audit subject to ERISA showed an industry-specific audit program was not obtained and used by the firm on the audit. In addition, some key confirmations relating to investment balances were not obtained, and alternative procedures were not performed. The partner with responsibility for the engagement indicated that the firm obtained a large new client that took up a lot of time, and as a result, the staff rushed through the ERISA audit using the prior year's working papers.

Planned Corrective Actions Related to Employee Benefit Plan Audits

The firm represented that the AICPA Audit and Accounting Guide and industry-specific practice aids that include model audit programs have been ordered. The firm has subsequently obtained confirmations and/or performed alternative procedures to substantiate the investment balances. I reviewed the additional procedures performed and they are appropriate. In addition, the firm represented that it plans to send its audit staff responsible for conducting employee benefit plan audits to 8 hours of CPE audits of employee benefit plans.

Performance of Audits Subject to *Government Auditing Standards* and the Single Audit Act

The firm performed several audits subject to the Single Audit Act. The firm failed to issue the required reports on internal controls and compliance with laws and regulations, did not document its consideration and testing of the internal control structure, and did not perform the necessary procedures to test compliance with laws and regulations. In addition, the partner responsible for the engagement was not in compliance with the Yellow Book CPE requirement. The firm performed the omitted audit procedures and issued the missing reports, which I reviewed before the firm's peer review documents were presented to the Committee. The firm's letter of response stated that the partner would take the necessary CPE.

Results of the Firm's Remedial Actions Related to Audits Subject to *Government Auditing Standards* and the Single Audit Act

My review of a single audit performed subsequent to the firm's peer review noted that all required reports were issued on the engagement and that the owner participated in the necessary CPE. However, I was unable to determine the extent of the testing for compliance with laws and regulations because of significant documentation deficiencies. In addition, documentation deficiencies continued to exist with respect to considering and testing the entity's internal control structure and testing for compliance with the requirements applicable to the federal financial assistance programs.

Planned Corrective Actions Related to Audits Subject to *Government Auditing Standards* and the Single Audit Act

The firm represented that it plans to conduct a training session for partners and staff during the next month on documentation of audit procedures performed. In addition, the firm represented that it will instruct partners to focus on documentation during their review process and will amend the partner review checklist to add this focus.

Reports on Compiled Interim Financial Statements

The deficiency related to the firm's failure to issue accountants' compilation reports on monthly computer-generated financial statements. The firm's letter of response stated that the firm would revise its quality ~~control~~ ***management*** policies and procedures to require the issuance of compilation reports with the accompanying financial statements.

Results of the Remedial Actions Related to Compiled Interim Financial Statements

The firm adopted a policy requiring the partners to ensure that an accountant's report accompanies compiled financial statements when those statements are issued to the client. The inspection results indicated that compilation reports were issued with monthly compiled financial statements. However, some of the reports did not disclose that the financial statements were presented using a special purpose framework (cash basis). This reporting error occurred because the firm obtained a copy of the standard compilation report from the reviewer and used it on all of its compiled financial statements. The firm was not familiar with cash basis reporting on Statements on Standards for Accounting and Review Services (SSARS) engagements and did not have any third-party reference material. In addition, the firm's accounting personnel had not taken any recent CPE courses relating to SSARS engagements.

Planned Corrective Actions Related to Compiled Interim Financial Statements

The firm implemented a reviewer checklist to provide assurance that the proper type of compilation report will be issued and its policies and procedures were revised to require completion of this checklist. In addition, the firm represented that all personnel involved in preparing and/or

reviewing compilation engagements will take 8 hours of CPE on SSARS engagements within the next month. To assess the effectiveness of using the new checklist, the firm represented that it plans to review a sample of compilation reports issued subsequent to the implementation of the checklist.

Summary

The firm's inspection appears to have been comprehensive, suitably designed, and adequately documented, and the results appear to have been effectively communicated to professional personnel. However, the firm's inspection failed to identify the issues previously discussed. As a result, I believe the Committee should further monitor the firm's corrective actions because the results revealed that the firm has failed to adequately implement the corrective actions described in its letter of response. I recommend that the Committee consider requiring the firm to hire an outside third party sufficiently experienced in the industries in which the firm's clients operate to perform a pre-issuance review of the firm's employee benefit plan audits and those subject to *Government Auditing Standards* and the Single Audit Act.

This letter is intended solely for the information and use of the [*name of the administering entity's peer review committee or its report acceptance body*] and the owners of [*reviewed firm's name*] and is not intended as a substitute or replacement for the peer review documents issued on the firm's 20XX peer review.

Sincerely,

_____

[*Outside Party's Signature*]

cc: [*Reviewed Firm's Name*]

SAMPLE LETTER ON AN OUTSIDE PARTY'S REVIEW OF A SUBSEQUENT ENGAGEMENT — CORRECTIVE ACTIONS

[*Outside Party's Firm Letterhead*]

October 6, 20XX

[*Name and Address of the Report Acceptance Body*]

Dear Committee Members:

This letter is written to assist [*reviewed firm's name*] in complying with certain actions the firm voluntarily agreed to take in connection with the [*name of the report acceptance body*]'s consideration of acceptance of its 20XX peer review report and response thereto.

The [*name of the administering entity's peer review committee or its report acceptance body*] accepted the firm's 20XX peer review documents with the understanding that the firm agreed to permit an outside party, acceptable to the Committee chair, to review the report, financial statements, and working papers of an audit engagement issued subsequent to the firm's peer review and communicate to the Committee in writing on the results of that review by July 31, 20XX.

I performed the following procedures:

a. Reviewed a copy of the firm's 20XX peer review report, finding for further consideration (FFC) forms (if applicable), and the firm's letter of response, and the acceptance letter describing the required corrective actions.
b. Reviewed the report, financial statements, and working papers for a not-for-profit audit engagement for the period ended June 30, 20XX, issued subsequent to the peer review to determine whether the engagement was performed in accordance with professional standards in all material respects. I documented my review using the AICPA "Not-for-Profit Audit Engagement Checklist."
c. Discussed with the firm the review results and the corrective action plan and evaluated the feasibility of the firm achieving its plan.

While performing the procedures, I found some minor incomplete disclosures in the areas of promises to give and collections. The firm represented that it will conduct a "refresher" training session on disclosures for all owners and professional staff and will also instruct owners to focus on disclosures during their review process.

Because only minor matters were found on the engagement I reviewed, I believe no further monitoring of the firm by the [*name of the administering entity's peer review committee or its report acceptance body*] is necessary at this time.

This letter is intended solely for the information and use of the [*name of the administering entity's peer review committee or its report acceptance body*] and the owners of [*reviewed*

firm's name] and is not intended as a substitute or replacement for the peer review documents issued on the firm's 20XX peer review.

Sincerely,_____

[*Outside Party's Signature*]

cc: [*Reviewed Firm's Name*]

PR-C Section 430, *Reviewer Monitoring and Performance*

[Paragraphs .01–.26 are unchanged.]

Application and Other Explanatory Material

Reviewer Performance (Ref: par. .05)

[Paragraph .A1 is unchanged.]

.A2 Examples of reviewer performance findings that may be documented on a reviewer performance feedback form include, but are not limited to, the following:

a. Related to planning, the reviewer did not

i. obtain team member approval timely.

ii. obtain a sufficient understanding of the firm's accounting and auditing practice or system of quality ~~control~~ ***management***, resulting in the need to perform additional work after the working papers were submitted to the AE.

iii. address significant differences between the background information provided to the AE during scheduling and the information that the firm provided to the reviewer that would have affected peer review planning or procedures.

iv. adequately document a comprehensive risk assessment for the system review and additional clarification was necessary after working papers were submitted to the AE.

b. Related to engagement selection and review, the reviewer

i. did not select a sufficient or appropriate scope of engagements for review; this includes selecting too many engagements on an engagement review.

ii. did not properly select the "surprise" engagement.

iii. did not provide sufficient documentation of reasoning for the surprise selection.

iv. identified all significant issues in an engagement but did not appropriately conclude on whether an engagement was nonconforming prior to technical review, oversight, or RAB consideration.

c. Related to the assessment and disposition of matters, the reviewer did not

i. appropriately identify matters, findings, deficiencies, or significant deficiencies that would not rise to the level of performance deficiencies.

ii. appropriately dispose of matters noted on the review.

iii. properly consider or document the need to expand scope to other engagements or functional areas.

iv. appropriately aggregate or evaluate matters noted on the review.

d. Related to the completion of findings for further consideration (FFCs), the reviewer did not

i. write findings systemically in a system review.

ii. sufficiently complete or write FFCs or evaluate the firm's response.

iii. properly identify a repeat finding.

e. Related to reporting, the reviewer did not

i. provide sufficient working papers or documentation to support the report rating.

ii. present the report in standard form in accordance with peer review guidance, or significant revisions to the report were needed.

iii. properly review and evaluate the reviewed firm's letter of response prior to its submission to the AE.

iv. properly identify a repeat deficiency.

f. Related to completion and submission of working papers, significant revisions to the working papers were needed or the reviewer did not

i. comprehensively complete peer review documentation.

ii. properly report engagement statistics.

iii. properly discuss consideration of a nonconforming engagement including consideration of the reviewed firm's response.

iv. use appropriate practice aids that follow current templates, materials, and checklists.

[Paragraphs .A3–.A32 are unchanged.]